

City of North Chicago, Illinois

Annual Financial Report

Year Ended April 30, 2017

City of North Chicago, Illinois

Annual Financial Report

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INDEPENDENT AUDITORS' REPORT

MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of North Chicago
North Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Chicago, Illinois (the "City"), as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Police and Firefighters' Pension Funds, which represent over ninety-eight percent of the assets, net position, and revenues of the fiduciary funds. Those statements were audited by an other auditor whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Police Pension Fund and Firefighters' Pension Fund, is based solely on the reports of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

(Continued)

Auditors' Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Chicago, Illinois, as of April 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note N to the audited financial statements, net position and capital assets on the governmental and business-type activities as of May 1, 2016 have been restated due to a capital asset inventory performed by a third party during fiscal year 2017. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12, the Illinois Municipal Retirement Fund, Police and Firefighters' pension data on pages 89 - 96, the other postemployment benefits data on page 97 and budgetary comparison schedules and notes to the required supplementary information on pages 98 through 102 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We, and other auditors, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other schedules listed in the table of contents (the supplementary financial information and other supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary financial information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information for the year ended April 30, 2017 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary financial information for the year ended April 30, 2017 is fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended April 30, 2017.

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

MILLER, COOPER & CO., LTD.

Miller, Cooper & Co., Ltd.

Certified Public Accountants

Deerfield, Illinois

March 9, 2018

Management's Discussion and Analysis (Unaudited)

As management of the City of North Chicago, we offer readers of the City of North Chicago's financial statements this narrative overview and analysis of the financial activities of the City of North Chicago, for the fiscal year ended April 30, 2017.

Financial Highlights

- The assets and deferred outflows of the City of North Chicago (the City) net of its liabilities and deferred inflows at the close of the most recent fiscal year resulted in a net deficit of \$46,637,565.
- As of April 30, 2017, the City's governmental funds reported combined ending fund balances of \$26,126,617. Of this amount, \$10,566,507, of total general fund fund balance of \$12,595,088 was unassigned, and available for spending at the City's discretion (unassigned general fund fund balance).
- At April 30, 2017, the City's outstanding General Obligation Bond principal was \$20,845,000 which is a decrease of \$1,430,000 from the prior fiscal year.

Overview of the Financial Statements

The management's discussion and analysis serves as an introduction to the City's basic financial statements, which are the government-wide financial statements, fund financial statements, and notes to the financial statements. Also included in the report is required supplementary information, supplementary financial information, and other supplementary information.

Government-Wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements combine and consolidate short-term, spendable resources with capital assets and long-term obligations.

The statement of net position (deficit) presents information on all of the City's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position (deficit). Over time, increases or decreases in net position (deficit) may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include administration and general government, public safety, public works, library, and economic development. The business-type activities of the City include the water and wastewater (sanitary and storm sewer) operations.

The government-wide financial statements can be found on pages 14-17 of this report.

Overview of the Financial Statements (Continued)

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and Sheridan Crossing Tax Increment Financing Redevelopment Project Area Fund, which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and certain other funds. A budgetary comparison statement has been provided for the General Fund and any major special revenue funds to demonstrate compliance with the budget. In addition, the supplementary financial information also contains budgetary comparison statements for all nonmajor funds.

Effective for the April 30, 2017 Fiscal Year, the City adopted Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments.

Additionally, the City adopted Statement No. 77, *Tax Abatement Disclosures*, which addresses providing financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current year revenues were sufficient to pay for current year services, (b) compliance with finance related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time.

Specific changes due to the adoption of these Statements are noted in Note A of the Notes to the Financial Statements.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Overview of the Financial Statements (Continued)

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and wastewater (sanitary and storm sewer) operations. Internal service funds are an accounting device used to report activities that provide goods or services to City departments. The City uses internal service funds to account for employee dental and vision self-insurance and retiree's medical insurance programs. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide information for the water, wastewater, and refuse operations, which are considered to be major funds of the City. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Unrestricted net position of the enterprise funds at April 30, 2017 amounted to \$8,908,301 and net position of the internal service funds amounted to \$163,134.

The basic proprietary fund financial statements can be found on pages 22-27 of this report.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. Fiduciary funds are used to account for pension trust funds that are audited by a separate accounting firm, and agency funds.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a better understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-89 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide their post employment benefits and pension data related to the Illinois Municipal Retirement Fund and Police and Firefighters' pension. Required supplementary information can be found on pages 90-103 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented following the required supplementary information on pensions and in the supplementary financial information section. Combining and individual fund statements and budgetary comparison schedules for nonmajor governmental funds and internal service funds can be found on pages 126-133 and 138-140 of this report, respectively.

Government-Wide Financial Analysis

As noted earlier, net position (deficit) may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred outflows by \$46,637,565 (net deficit) at the close of FY 2016-2017.

The largest portion of the City's net deficit reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment) less any related outstanding debt used to acquire those assets and pension liabilities. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table reflects condensed information for the City's net position (deficit):

CITY OF NORTH CHICAGO Net Position (Deficit)

	Governmental Activities		Business-type Activities		Total	
	2017	2016*	2017	2016*	2017	2016*
Current assets	\$32,574,274	\$35,553,366	\$9,845,475	\$10,977,645	\$42,419,749	\$46,531,011
Noncurrent assets	20,601,340	19,426,875	15,189,940	15,467,719	35,791,280	34,894,594
Total assets	53,175,614	54,980,241	25,035,415	26,445,364	78,211,029	81,425,605
Deferred outflows:						
Related to pensions	16,154,183	17,770,033	359,479	432,994	16,513,662	18,203,027
Loss on refunding of bonds	168,367	187,074	86,050	95,611	254,417	282,685
Total deferred outflows	16,322,550	17,957,107	445,529	528,605	16,768,079	18,485,712
Current liabilities	1,901,629	1,881,440	490,010	661,551	2,391,639	2,542,991
Noncurrent liabilities	120,141,056	128,009,219	3,757,715	4,168,295	123,898,771	132,177,514
Total liabilities	122,042,685	129,890,659	4,247,725	4,829,846	126,290,410	134,720,505
Deferred inflows:						
Property taxes levied for a future period	4,382,894	4,603,015	140,577	93,037	4,523,471	4,696,052
Related to pensions	10,750,234	-	52,558	-	10,802,792	
Total deferred inflows	15,133,128	4,603,015	193,135	93,037	15,326,263	4,696,052
Net position (deficit):						
Net investment in capital assets	8,380,602	6,544,083	12,131,783	12,036,118	20,512,385	18,580,201
Restricted by enabling legislation	5,050,363	4,922,308	-	-	5,050,363	4,922,308
Restricted for sales tax refund	982,890	1,194,090	-	-	982,890	1,194,090
Unrestricted	(82,091,504)	(74,216,807)	8,908,301	10,014,968	(73,183,203)	(64,201,839)
Total net position (deficit)	\$(67,677,649)	\$(61,556,326)	\$21,040,084	\$22,051,086	\$(46,637,565)	\$(39,505,240)

*Amounts presented are as originally reported and not restated due to the capital asset inventory described in Note O.

Government-Wide Financial Analysis (Continued)

Contributing to the City's net deficit at April 30, 2017 within Governmental Activities is the pension liabilities, which were recorded in the statement of net position effective May 1, 2015 in accordance with the implementation of GASB 68 and 71. More information on the City's pension liabilities can be found in Note I. Partially, offsetting that net deficit is the positive net position within the Business-Type Activities.

Governmental Activities: The City's changes in net position (deficit) and total revenues, expenses, and transfers for governmental and business-type activities are reflected in the following:

CITY OF NORTH CHICAGO
Changes in Net Position (Deficit)

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016*	2017	2016*	2017	2016*
Revenues:						
Program revenues:						
Charges for services	\$ 3,403,200	\$ 3,890,985	\$ 7,924,602	\$ 7,239,403	\$11,327,802	\$11,130,388
Operating grants	1,615,366	1,285,707	-	-	1,615,366	1,285,707
General revenues:						
Property taxes	10,335,395	9,762,334	232,498	120,371	10,567,893	9,882,705
Other taxes	4,959,572	4,652,681	-	-	4,959,572	4,652,681
Intergovernmental	5,628,698	5,876,487	-	-	5,628,698	5,876,487
Other	508,265	467,847	83,722	238,219	591,987	706,066
Total revenues	26,450,496	25,936,041	8,240,822	7,597,993	34,691,318	33,534,034
Expenses:						
Administration and general government	7,087,758	5,116,104	-	-	7,087,758	5,116,104
Police	14,246,000	14,127,721	-	-	14,246,000	14,127,721
Fire	5,937,200	5,497,627	-	-	5,937,200	5,497,627
Public works	2,524,547	2,546,397	-	-	2,524,547	2,546,397
Library	639,295	678,925	-	-	639,295	678,925
Economic development	2,160,588	3,000,109	-	-	2,160,588	3,000,109
Impairment loss on land held for sale	2,693,946	-	-	-	2,693,946	-
Interest and other	609,911	644,575	-	-	609,911	644,575
Water	-	-	7,539,392	4,086,235	7,539,392	4,086,235
Sewer	-	-	-	854,720	-	854,720
Total expenses	35,899,245	31,611,458	7,539,392	4,940,955	43,438,637	36,552,413
Change in net position (deficit) before transfers	(9,448,749)	(5,675,417)	701,530	2,657,038	(8,747,319)	(3,018,379)
Transfers	2,175,000	2,000,000	(2,175,000)	(2,000,000)	-	-
Increase (decrease) in net position (deficit)	(7,273,749)	(3,675,417)	(1,473,570)	657,038	(8,747,319)	(3,018,379)
Net position (deficit) – beginning of year (as restated)	(60,403,900)	(57,880,909)	22,513,654	21,394,048	(37,890,246)	(36,486,861)
Net position (deficit) – end of year	\$(67,677,649)	\$(61,556,326)	\$21,040,084	\$22,051,086	\$(46,637,565)	\$(39,505,240)

*Amounts presented are as originally reported and not restated due to the capital asset inventory described in Note O.

Financial Analysis of the City's Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of April 30, 2017, the combined ending fund balances of the City's governmental funds were \$26,126,617, a decrease of \$2,755,267 in comparison with the prior year. Approximately 39.4% or \$10.3 million constitutes unassigned fund balance, which is available for spending at the City's discretion. The City also reported an assigned fund balance of \$390,367 which represents amounts to be used to fulfill current obligations (payables). The remainder of the fund balance is classified as nonspendable/restricted to indicate that it is not available for spending because it has already been designated for 1) inventory-\$4,000; 2) prepaid items-\$499,324; 3) property held for resale-\$4,803,440; 4) special revenue funds-\$5,079,411; 5) debt service-\$2,742,220 6) capital projects-\$1,325,693 and 6) notes payable to Illinois Department of Revenue-\$982,890 for sales tax reimbursements.

The General Fund is the primary operating fund of the City. At the end of the fiscal year, unassigned fund balance of the General Fund was \$10,566,507. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned general fund balance represented 44.6% of total 2017 General Fund expenditures.

The City's General Fund fund balance increased by \$211,383 during the current fiscal year. Factors related to this change are as follows:

- Revenue earned from the extension of property taxes increased by \$263,971.
- There was an increase in funding from grants of \$635,513 related to the City's participation in the FEMA sponsored program for fire first responders. Revenue realized from earned fines and fees decreased by \$737,866. Overall, the City's General Fund revenue profile increased by \$371,759 or 1.77% from FY 2015-2016.

Proprietary Funds: The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but with more detail.

The total net position of the water, sewer and refuse operations at the end of the year amounted to \$21,040,084, as compared to \$22,513,654 for the prior year, a decrease of \$1,473,570 or 6.5%. The unrestricted balance at year end totaled \$8,908,301. This is attributed to a major water improvement project (water main replacement).

General Fund Budgetary Highlights

Revenues and other financing sources were \$23,926,434, compared to the budget of \$22,911,935, a positive variance against budget of \$1,014,499. The difference between the budget and the actual revenues was spread across the entire revenue profile of the General Fund. Total expenditures were \$23,715,051, compared to the budget of \$23,365,741. General Fund expenses exceeded budget by \$349,310, however this offset by revenues better than expected, thereby resulting in revenue over expenditures in the amount of \$211,383.

Capital Asset and Debt Administration

Capital Assets: The City's investment in capital assets for its governmental and business-type activities as of April 30, 2017, amounts to \$35,791,210 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, infrastructure, library collections, and machinery and equipment.

For the most part, assets were added during the course of recurring improvements to City infrastructure, most specifically at the water plant. Also, new vehicles and equipment were purchased for both fire and police as part of normal scheduled replacement practices.

Capital asset detail, by category of asset, is as follows:

CITY OF NORTH CHICAGO
Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2017	2016*	2017	2016*	2017	2016*
Land	\$2,853,106	\$ 2,831,841	2,435	\$ 2,435	2,855,541	\$ 2,834,276
Assets not placed in service	241,168	-	-	-	241,168	-
Land improvements	279,737	194,737	100,477	103,389	380,214	298,126
Buildings and improvements	2,442,222	2,370,993	3,911,832	3,998,481	6,354,054	6,369,474
Infrastructure	12,464,399	12,040,082	-	-	12,464,399	12,040,082
Library collections	151,131	159,274	-	-	151,131	159,274
Machinery and equipment	2,169,577	1,829,948	11,175,196	11,363,414	13,344,412	13,193,362
Total	\$20,601,340	\$19,426,875	\$15,189,940	\$15,467,719	\$35,791,280	\$34,894,594

*Amounts presented are as originally reported and not restated due to the capital asset inventory described in Note O.

Additional information on the City's capital assets can be found in Note E on pages 54-56 of this report.

Capital Asset and Debt Administration (Continued)

Long-Term Debt: At April 30, 2017, the City had outstanding general obligation debt of \$20,845,000 backed by the full faith and credit of the City.

CITY OF NORTH CHICAGO
Long Term Debt

	Governmental activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
GO Bonds:						
Series 2007A	\$1,485,000	\$1,680,000	\$ -	\$ -	\$1,485,000	\$1,680,000
Series 2007B	4,740,000	4,740,000	-	-	4,740,000	4,740,000
Series 2007C	7,225,000	7,570,000	-	-	7,225,000	7,570,000
Series 2014A Refunding	5,315,000	6,010,000	-	-	5,315,000	6,010,000
Series 2014B Refunding	-	-	2,080,000	2,275,000	2,080,000	2,275,000
Total Bonds	18,765,000	20,000,000	2,080,000	2,275,000	20,845,000	22,275,000
Other:						
Bond issuance premium	335,785	414,450	158,643	181,308	494,428	595,758
Compensated Absences	1,989,695	1,817,051	200,476	161,618	2,190,171	1,978,669
Capital lease	-	115,422	-	-	-	115,422
Other post employment benefits	132,532	124,671	-	-	132,532	124,671
Lawsuit settlement liability	44,800	46,200	-	-	44,800	46,200
Note payable to Lake Forest Bank	232,735	-	-	-	232,735	-
Note Payable to IFA	100,000	-	-	-	100,000	-
Library/Water note payable to First Midwest Bank	348,003	387,808	17,613	51,848	735,811	439,656
Note payable to IL Department of Revenue	982,890	1,194,090	-	-	982,890	1,194,090
Net Firefighter, Police and IMRF Pension liability	97,209,616	103,915,557	340,439	424,585	97,550,055	104,340,142
Note payable to Abbott Laboratories	-	-	179,228	234,745	179,228	234,745
Note payable to IL Environmental Protection Agency	-	-	781,316	839,191	781,316	839,191
Total Other	101,376,056	108,015,249	1,677,715	1,893,295	103,053,771	109,908,544
Total	\$120,141,056	\$128,015,249	\$3,757,715	\$4,168,295	\$123,898,771	\$132,183,544

Capital Asset and Debt Administration (Continued)

Long-Term Debt (Continued)

Additional information on the City's long-term debt can be found in Note F on pages 57-64 of this report.

Economic Factors:

North Chicago is a diverse community consisting primarily of residential homes, several non-profit organizations, and major corporations including Abbott Laboratories, AbbVie, Rosalind Franklin University, and Naval Station Great Lakes, which is the only recruit training facility in the United States. The City's property tax revenues remained stable along this with other fees and taxes increased slightly, as compared to the prior fiscal year. Ideally, this is an indication that the local economy has begun to stabilize. However, caution and a conservative approach to all aspects of budgeting and financial execution on a daily basis need to be paramount.

Bond Rating: The City's general obligation bonds are rated "A" by Standard & Poor's Rating Services.

Risk Management: The City has a new third-party administrator for its liability and workers' compensation claims. Based upon favorable insurance experience and rates, the City reduced certain deductibles to provide more stable coverage during the current economy.

Requests for Information

This financial report is designed to provide a general overview of the City of North Chicago's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Comptroller, City of North Chicago, 1850 Lewis Avenue, North Chicago, Illinois 60064 or on the City website at www.northchicago.org.

BASIC FINANCIAL STATEMENTS

City of North Chicago, Illinois
Statement of Net Position (Deficit)
April 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 15,090,992	\$ 8,921,663	\$ 24,012,655
Restricted cash - sales tax refund	-	-	-
Property taxes receivable	9,631,302	281,942	9,913,244
Other taxes receivable	435,819	-	435,819
Intergovernmental receivable	71,320	-	71,320
Other receivables, net	1,970,077	709,870	2,679,947
Internal balances	68,000	(68,000)	-
Prepaid expenses	499,324	-	499,324
Inventory	4,000	-	4,000
Property held for resale	4,803,440	-	4,803,440
Total current assets	32,574,274	9,845,475	42,419,749
Noncurrent assets			
Land and other capital assets not being depreciated	3,094,274	2,435	3,096,709
Capital assets, net of accumulated depreciation	17,507,066	15,187,505	32,694,571
Total noncurrent assets	20,601,340	15,189,940	35,791,280
Total assets	53,175,614	25,035,415	78,211,029
DEFERRED OUTFLOWS			
Deferred outflows related to pensions	16,154,183	359,479	16,513,662
Loss on refunding of bonds	168,367	86,050	254,417
Total deferred outflows	16,322,550	445,529	16,768,079

(Continued)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois
Statement of Net Position (Deficit)
April 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Current liabilities			
Accounts payable	\$ 940,483	\$ 434,420	\$ 1,374,903
Accrued payroll	512,412	55,590	568,002
Unearned revenue	25,000	-	25,000
Claims payable	18,540	-	18,540
Other liabilities	405,194	-	405,194
Long-term liabilities			
Due within one year	1,804,235	354,152	2,158,387
Due in more than one year	118,336,821	3,403,563	121,740,384
Total liabilities	<u>122,042,685</u>	<u>4,247,725</u>	<u>126,290,410</u>
DEFERRED INFLOWS			
Property taxes levied for a future period	4,382,894	140,577	4,523,471
Deferred inflows related to pensions	10,750,234	52,558	10,802,792
Total deferred inflows	<u>15,133,128</u>	<u>193,135</u>	<u>15,326,263</u>
NET POSITION (DEFICIT)			
Net investment in capital assets	8,380,602	12,131,783	20,512,385
Restricted by enabling legislation	5,050,363	-	5,050,363
Restricted for sales tax refund	982,890	-	982,890
Unrestricted	(82,091,504)	8,908,301	(73,183,203)
Total net position (deficit)	<u>\$ (67,677,649)</u>	<u>\$ 21,040,084</u>	<u>\$ (46,637,565)</u>

(Concluded)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Statement of Activities

For the Year Ended April 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants</u>
Primary government			
Governmental activities			
Administration and general government	\$ 7,087,758	\$ 30,498	\$ -
Police	14,246,000	1,795,288	-
Fire	5,937,200	362,868	648,559
Public works	2,524,547	1,197,193	825,637
Library	639,295	17,353	53,695
Economic development	2,160,588	-	87,475
Impairment loss on land held for sale (See Note A-17)	2,693,946	-	-
Interest and other	609,911	-	-
Total governmental activities	<u>35,899,245</u>	<u>3,403,200</u>	<u>1,615,366</u>
Business-type activities			
Water, sewer and refuse	<u>7,539,392</u>	<u>7,924,602</u>	-
Total business-type activities	<u>7,539,392</u>	<u>7,924,602</u>	-
Total primary government	<u>\$ 43,438,637</u>	<u>\$ 11,327,802</u>	<u>\$ 1,615,366</u>
		General revenues (expenses)	
		Property taxes	
		Other taxes	
		Intergovernmental	
		Miscellaneous	
		Interest income	
		Transfers	
		Total general revenues, transfers, and other	
		Change in net position	
		Net position (deficit), beginning of year, as restated (See Note O)	
		Net position (deficit), end of year	

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (7,057,260)	\$ -	\$ (7,057,260)
(12,450,712)	-	(12,450,712)
(4,925,773)	-	(4,925,773)
(501,717)	-	(501,717)
(568,247)	-	(568,247)
(2,073,113)	-	(2,073,113)
(2,693,946)	-	(2,693,946)
(609,911)	-	(609,911)
<u>(30,880,679)</u>	<u>-</u>	<u>(30,880,679)</u>
<u>-</u>	<u>385,210</u>	<u>385,210</u>
<u>-</u>	<u>385,210</u>	<u>385,210</u>
<u>(30,880,679)</u>	<u>385,210</u>	<u>(30,495,469)</u>
10,335,395	232,498	10,567,893
4,959,572	-	4,959,572
5,628,698	-	5,628,698
494,734	56,417	551,151
13,531	27,305	40,836
<u>2,175,000</u>	<u>(2,175,000)</u>	<u>-</u>
<u>23,606,930</u>	<u>(1,858,780)</u>	<u>21,748,150</u>
(7,273,749)	(1,473,570)	(8,747,319)
<u>(60,403,900)</u>	<u>22,513,654</u>	<u>(37,890,246)</u>
<u>\$ (67,677,649)</u>	<u>\$ 21,040,084</u>	<u>\$ (46,637,565)</u>

City of North Chicago, Illinois

Governmental Funds

Balance Sheet

April 30, 2017

	Sheridan Crossing Tax			
	General	Increment Financing	Nonmajor	Total
		Project Area	Governmental	Governmental
		Funds	Funds	
ASSETS				
Cash and cash equivalents	\$ 8,245,571	\$ -	\$ 6,682,497	\$ 14,928,068
Property taxes receivable	6,584,950	-	3,046,352	9,631,302
Other taxes receivable	435,819	-	-	435,819
Intergovernmental receivable	-	-	71,320	71,320
Other receivables	1,607,463	-	318,839	1,926,302
Prepaid expense	499,324	-	-	499,324
Due from other funds	155,850	-	857,201	1,013,051
Inventory	4,000	-	-	4,000
Property held for resale	152,000	3,300,000	1,351,440	4,803,440
Total assets	<u>\$ 17,684,977</u>	<u>\$ 3,300,000</u>	<u>\$ 12,327,649</u>	<u>\$ 33,312,626</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 766,630	\$ 36,750	\$ 120,771	\$ 924,151
Accrued payroll	502,071	-	10,341	512,412
Other liabilities	403,064	-	2,130	405,194
Unearned fees	-	-	25,000	25,000
Due to other funds	143,593	209,534	583,231	936,358
Total liabilities	<u>1,815,358</u>	<u>246,284</u>	<u>741,473</u>	<u>2,803,115</u>
Deferred inflows				
Property taxes levied for a future period	3,274,531	-	1,108,363	4,382,894
Total deferred inflows	<u>3,274,531</u>	<u>-</u>	<u>1,108,363</u>	<u>4,382,894</u>
Fund balances				
Nonspendable for inventory	4,000	-	-	4,000
Nonspendable for prepaid items	499,324	-	-	499,324
Nonspendable for property held for resale	152,000	3,300,000	1,351,440	4,803,440
Restricted for special revenue funds	-	-	5,079,411	5,079,411
Restricted for debt service	-	-	2,742,220	2,742,220
Restricted for capital projects	-	-	1,325,693	1,325,693
Restricted for sales tax refund	982,890	-	-	982,890
Assigned for accounts payable clearing	390,367	-	-	390,367
Unassigned	10,566,507	(246,284)	(20,951)	10,299,272
Total fund balances	<u>12,595,088</u>	<u>3,053,716</u>	<u>10,477,813</u>	<u>26,126,617</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 17,684,977</u>	<u>\$ 3,300,000</u>	<u>\$ 12,327,649</u>	<u>\$ 33,312,626</u>

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position (Deficit)

April 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds \$ 26,126,617

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 20,601,340

Deferred charges included in the statement of net position (deficit) are not available to pay for current period expenditures and, accordingly, are not included in the governmental funds balance sheet. 168,367

Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:

Deferred outflows related to IMRF pension fund	\$ 743,300	
Deferred outflows of 2017 employer IMRF contributions related to pensions	95,485	
Deferred inflows related to IMRF pension fund	(122,634)	
Deferred outflows related to firefighters' pension fund	3,502,952	
Deferred inflows related to firefighters' pension fund	(3,517,391)	
Deferred outflows related to police pension fund	11,812,446	
Deferred inflows related to police pension fund	<u>(7,110,209)</u>	5,403,949

Long-term liabilities are not due and payable in the current period. Therefore, these liabilities are not reported in the current period and, consequently, are not reported in the governmental funds. (120,141,056)

The net position of the internal service funds are included in the governmental activities in the statement of net position. 163,134

Net deficit of governmental activities \$ (67,677,649)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended April 30, 2017

	Sheridan Crossing			Total Governmental Funds
	General	Tax Incremental Redevelopment Project Area	Nonmajor Governmental Funds	
Revenues				
Property taxes	\$ 6,654,781	\$ -	\$ 3,680,614	\$ 10,335,395
Taxes - other	4,837,711	-	121,861	4,959,572
Licenses and permits	880,057	-	-	880,057
Intergovernmental	5,626,645	-	827,690	6,454,335
Grants	677,146	-	112,583	789,729
Fines and fees	2,529,737	-	17,353	2,547,090
Interest	2,639	-	10,838	13,477
Miscellaneous	209,983	-	319,628	529,611
Total revenues	21,418,699	-	5,090,567	26,509,266
Expenditures				
Current				
General government	2,239,455	276,284	-	2,515,739
Administration services	4,065,046	-	11,162	4,076,208
Highway and streets	1,377,745	-	435,508	1,813,253
Public safety	14,025,135	-	32,178	14,057,313
Culture and recreation	-	-	596,073	596,073
Economic development	1,880,571	-	262,797	2,143,368
Debt service				
Principal retirement	103,056	-	1,235,000	1,338,056
Interest and other	17,379	-	915,861	933,240
Impairment loss (Note A-17)	-	2,590,809	103,137	2,693,946
Capital outlay	6,664	-	1,598,408	1,605,072
Total expenditures	23,715,051	2,867,093	5,190,124	31,772,268
Deficiency of revenues over expenditures	(2,296,352)	(2,867,093)	(99,557)	(5,263,002)
Other financing sources (uses)				
Proceeds from long-term debt	332,735	-	-	332,735
Transfers out	-	-	(212,400)	(212,400)
Transfers in	2,175,000	30,000	182,400	2,387,400
Total other financing sources (uses)	2,507,735	30,000	(30,000)	2,507,735
Net change in fund balance	211,383	(2,837,093)	(129,557)	(2,755,267)
Fund balances, beginning of year (See Note A-4)	12,383,705	5,890,809	10,607,370	28,881,884
Fund balances, end of year	\$ 12,595,088	\$ 3,053,716	\$ 10,477,813	\$ 26,126,617

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended April 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ (2,755,267)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense and loss on disposals in the current period. 16,009

Governmental funds report the effects of deferred charges when the debt is issued. However, these amounts are deferred and amortized in the statement of activities. This is the amount of the current year net effect of these differences. (18,707)

Changes in deferred outflows and inflows of resources related to pensions are reported only in the statement of activities:

Deferred outflow and inflows of resources related to IMRF pension fund (294,167)

Deferred outflow and inflows of resources related to firefighters' pension fund (3,139,030)

Deferred outflow and inflows of resources related to police pension fund (8,932,887)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of the difference in the treatment of long-term debt and related items. 1,268,692

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 6,605,501

Internal service funds are reported with governmental activities. The net revenues of certain activities of internal service funds are reported with governmental activities. (23,893)

Change in net deficit - governmental activities \$ (7,273,749)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Proprietary Funds
Statement of Net Position
April 30, 2017

	Business-Type Activities - Enterprise Fund	Governmental Activities
	Major Fund	
	Water, Sewer and Refuse	Internal Service Funds
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,921,663	\$ 162,924
Due from other funds	27,491	1,307
Property tax receivable	281,942	
Other receivables, net	709,870	43,775
Total current assets	9,940,966	208,006
Noncurrent assets		
Land and other capital assets not being depreciated	2,435	-
Capital assets, net of accumulated depreciation	15,187,505	-
Total noncurrent assets	15,189,940	-
Total assets	25,130,906	208,006
DEFERRED OUTFLOWS		
Deferred outflows related to pensions	359,479	-
Loss on refunding of bonds	86,050	-
Total deferred outflows	445,529	-

(Continued)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Proprietary Funds
Statement of Net Position
April 30, 2017

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Major Fund</u>	
	<u>Water, Sewer and Refuse</u>	<u>Internal Service Funds</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 434,420	\$ 16,332
Accrued payroll	55,590	-
Due to other funds	95,491	10,000
Claims payable	-	18,540
Long-term liabilities		
Due within one year	354,152	-
Due after one year	3,403,563	-
Total liabilities	4,343,216	44,872
DEFERRED INFLOWS		
Property taxes levied for a future period	140,577	-
Deferred inflows related to pensions	52,558	-
Total deferred inflows	193,135	-
NET POSITION		
Net investment in capital assets	12,131,783	-
Unrestricted	8,908,301	163,134
Total net position	\$ 21,040,084	\$ 163,134

(Concluded)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois
 Proprietary Funds
 Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended April 30, 2017

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Major Fund</u>	
	<u>Water, Sewer and Refuse</u>	<u>Internal Service Funds</u>
Operating revenues		
Charges for sales and services	\$ 7,924,602	\$ 301,709
Miscellaneous	56,417	-
Total operating revenues	<u>7,981,019</u>	<u>301,709</u>
Operating expenses		
Operations	6,727,933	325,656
Depreciation	740,347	-
Total operating expenses	<u>7,468,280</u>	<u>325,656</u>
Operating income	<u>512,739</u>	<u>(23,947)</u>
Nonoperating revenues (expenses)		
Property taxes	232,498	-
Interest income	27,305	54
Interest expense and fiscal charges	(71,112)	-
Total nonoperating revenues (expenses)	<u>188,691</u>	<u>54</u>
Income (loss) before transfers	<u>701,430</u>	<u>(23,893)</u>

(Continued)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Position (Continued)

For the Year Ended April 30, 2017

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Major Fund</u>	
	<u>Water, Sewer and Refuse</u>	<u>Internal Service Funds</u>
Transfers out	\$ <u>(2,175,000)</u>	<u>-</u>
Change in net position	(1,473,570)	(23,893)
Net position, beginning of year, as restated (See Note N)	<u>22,513,654</u>	<u>187,027</u>
Net position, end of year	<u>\$ 21,040,084</u>	<u>163,134</u>

(Concluded)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Proprietary Funds

Statement of Cash Flows

For the Year Ended April 30, 2017

	<u>Business-Type Activities - Water, Sewer and Refuse Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
Cash flows from operating activities		
Cash received from customers	\$ 7,856,681	\$ 279,627
Cash received from insurance claim	-	-
Cash payments for goods and services	(5,216,075)	(358,433)
Cash payments to employees	<u>(1,553,852)</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>1,086,754</u>	<u>(78,806)</u>
Cash flows from noncapital financing activities		
Property tax revenues	232,498	-
Bond issuance costs	-	-
Interfund advances	(27,491)	-
Interfund borrowing	95,491	14,091
Operating transfers out	<u>(2,175,000)</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,874,502)</u>	<u>14,091</u>
Cash flows from capital and related financing activities		
Purchase of equipment and infrastructure	-	-
Payment of note payables	(89,752)	-
Payment of bond principal	(195,000)	-
Payments of IEPA loan	(57,875)	-
Interest, loss on refunding of bonds, and premium on bonds sold	<u>(132,978)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(475,605)</u>	<u>-</u>
Cash flows from investing activities		
Interest received	<u>27,305</u>	<u>54</u>
Net cash provided by investing activities	<u>27,305</u>	<u>54</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,236,048)	(64,661)
Cash and cash equivalents, beginning of year	<u>10,157,711</u>	<u>227,585</u>
Cash and cash equivalents, end of year	<u>\$ 8,921,663</u>	<u>\$ 162,924</u>

(Continued)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Proprietary Funds

Statement of Cash Flows (Continued)

For the Year Ended April 30, 2017

	Business-Type Activities - Water, Sewer and Refuse Fund	Governmental Activities - Internal Service Funds
	<u>Fund</u>	<u>Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 512,739	\$ (23,947)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	740,347	-
Increase in property tax receivables	(100,942)	-
Increase in other receivables	(70,936)	(22,082)
Decrease in deferred outflows related to pensions	122,277	-
Decrease in accounts payable	(174,014)	(36,066)
Increase in estimated claims liability	-	3,289
Increase in accrued payroll	2,473	-
Increase in property taxes levied for a future period	47,540	-
Increase in deferred inflows related to pensions	52,558	-
Increase in compensated absences payable	38,858	-
Decrease in net pension liability	(84,146)	-
Net cash provided by (used in) operating activities	<u>\$ 1,086,754</u>	<u>\$ (78,806)</u>

(Concluded)

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois

Fiduciary Funds

Statement of Fiduciary Net Position

April 30, 2017

	<u>Pension Trust Funds</u>		
	<u>Police Pension</u>	<u>Firefighters' Pension</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 331,055	\$ 849,197	\$ 1,180,252
Investments	14,773,335	8,437,998	23,211,333
Prepaid items	530	530	1,060
Interest receivable	<u>55,127</u>	<u>396</u>	<u>55,523</u>
Total assets	<u>15,160,047</u>	<u>9,288,121</u>	<u>24,448,168</u>
LIABILITIES			
Accounts payable	<u>10,686</u>	<u>5,967</u>	<u>16,653</u>
Total liabilities	<u>10,686</u>	<u>5,967</u>	<u>16,653</u>
PLAN NET POSITION			
Plan net position held in trust for pension benefits	<u>15,149,361</u>	<u>9,282,154</u>	<u>24,431,515</u>
Total net position	<u>\$ 15,149,361</u>	<u>\$ 9,282,154</u>	<u>\$ 24,431,515</u>

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
For the Year Ended April 30, 2017

	<u>Police Pension</u>	<u>Firefighters' Pension</u>	<u>Total</u>
Additions			
Contributions			
Employer	\$ 1,245,337	\$ 788,096	\$ 2,033,433
Plan members	<u>427,221</u>	<u>249,200</u>	<u>676,421</u>
Total contributions	<u>1,672,558</u>	<u>1,037,296</u>	<u>2,709,854</u>
Investment earnings			
Interest and dividends	393,908	91,606	485,514
Net change in fair value of investments	<u>933,669</u>	<u>840,341</u>	<u>1,774,010</u>
Total investment earnings	1,327,577	931,947	2,259,524
Less investment expenses	<u>102,475</u>	<u>32,049</u>	<u>134,524</u>
Net investment income	<u>1,225,102</u>	<u>899,898</u>	<u>2,125,000</u>
Total additions	<u>2,897,660</u>	<u>1,937,194</u>	<u>4,834,854</u>
Deductions			
Administration	52,857	59,542	112,399
Benefits and refunds of contributions	<u>2,437,558</u>	<u>1,349,682</u>	<u>3,787,240</u>
Total deductions	<u>2,490,415</u>	<u>1,409,224</u>	<u>3,899,639</u>
Change in net position	407,245	527,970	935,215
Net position held in trust for pension benefits			
Beginning of year	<u>14,742,116</u>	<u>8,754,184</u>	<u>23,496,300</u>
End of year	<u>\$ 15,149,361</u>	<u>\$ 9,282,154</u>	<u>\$ 24,431,515</u>

The accompanying notes are an integral part of this statement.

City of North Chicago, Illinois
Index for Notes to the Financial Statements
April 30, 2017

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April 30, 2017

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City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of North Chicago, Illinois, (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City's accounting policies are described below.

1. Reporting Entity

As defined by GAAP, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the City (primary government) are financially accountable. Financial accountability is defined as:

- (a) Appointment of a voting majority of the component unit's board, and either (1) the ability to impose will by the primary government or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (b) Fiscal dependency on the primary government.

Based on the above criteria, the City does not have any component units.

2. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 72, *Fair Value Measurement and Application*, issued in February 2015, which was implemented by the City during the fiscal year ended April 30, 2017. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments.

The GASB has issued Statement No. 77, *Tax Abatement Disclosures*, issued in August 2015, which was implemented by the City during the fiscal year ended April 30, 2017. This Statement addresses providing financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current year revenues were sufficient to pay for current year services, (b) compliance with finance related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements as they are not available to address activities or obligations of the City. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds are reported in the supplementary information.

4. Basis of Presentation - Fund Accounting

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three broad categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Funds - Governmental funds are used to account for all or most of a City's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the servicing of general long-term debt (debt service funds), and the acquisition or construction of capital assets (capital projects funds). The General Fund is used to account for all activities of the general government not accounted for in another fund.

For financial statement presentation purposes for the year ended April 30, 2017, the City disaggregated the Downtown Tax Increment Financing Redevelopment Project Area Fund (presented within non-major funds on the governmental funds balance sheet) and the Sheridan Crossing Tax Increment Financing Redevelopment Area Fund (presented as a major fund on the governmental funds balance sheet). The beginning fund balances were modified to represent each fund independently. In previous years, these funds were combined and presented accordingly.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Basis of Presentation - Fund Accounting (Continued)

Proprietary Funds - Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the City (internal service funds).

During fiscal year 2017, the City combined the sewer and refuse activities into the water fund (presented as the "Water, Sewer, and Refuse Fund"). In prior years, water and sewer activities were presented independently (within separate Water and Sewer Funds) and refuse activity was presented within the General Fund.

Fiduciary Funds - Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. When these assets are held under the terms of a formal trust agreement, a trust fund is used (pension trust funds).

5. Fund Balance

In the fund financial statements, governmental funds report five components of fund balance: nonspendable, restricted, committed, assigned, and unassigned.

- a. *Nonspendable* - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The nonspendable in form criteria includes items that are not expected to be converted to cash such as prepaid items, inventories and property held for resale.
- b. *Restricted* - refers to amounts that are subject to outside restrictions such as creditors, grantors, contributors, laws and regulations of other governments, or imposed by law through enabling legislation. Special revenue funds are by definition restricted for those specified purposes, as are debt service and capital projects funds.
- c. *Committed* - refers to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority (the City Council). The City Council commits fund balances by passing a resolution. Amounts committed cannot be used for any purpose unless the City removes or changes the specific use by taking the same type of formal action it employed to previously commit those funds. The City has no committed fund balances at April 30, 2017.
- d. *Assigned* - refers to amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted or committed. Intent may be expressed by the City Council or the individual the City Council delegates the authority to assign amounts to be used for specific purposes. The City Council delegated this authority to the Comptroller. The City has \$390,367 in assigned fund balances related to account payable clearing at April 30, 2017 as the amounts are to be used to fulfill current obligations (payables).

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

e. *Unassigned* - refers to all spendable amounts not contained in the other four classifications described above. In funds other than the general fund, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Unless specifically identified, expenditures act to reduce restricted balances first, then committed balances, next assigned balances, and finally they act to reduce unassigned balances. Expenditures for a specifically identified purpose will act to reduce the specific classification of fund balance that is identified.

Any fund with a deficit fund balance is classified as unassigned.

6. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the availability criteria is met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property taxes as available if they are collected within 60 days of the end of the current fiscal period. A six-month availability period is used for revenue recognition for all other governmental revenues. Expenditures generally are recorded when a liability is incurred, as under modified accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, sales taxes, income taxes, motor fuel taxes, franchise taxes, grant proceeds, interest revenue, and charges for services revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Sheridan Crossing Tax Increment Financing Redevelopment Project Area Fund* accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the tax increment financing district.

The City reports its enterprise fund as a major fund, as detailed below:

The *Water, Sewer and Refuse Fund* accounts for the provision of water, sewer and refuse services to the individual residents and commercial entities of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, financing and related debt service, and billing and collections.

Additionally, the City reports the following fund types:

Internal Service Funds (proprietary funds) account for dental and vision insurance claims and insurance premiums of retired employees provided to other funds, on a cost-reimbursement basis.

Pension Trust Funds account for the activities of the accumulation of resources to pay police and firefighters' pension benefits. Resources are contributed by members at rates fixed by state statutes and by the City which are based upon actuarial studies and funded through an annual property tax levy.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports unearned and unavailable revenue on its financial statements. Unearned and unavailable revenue arises when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability or deferred inflow of resources for unearned or unavailable revenue is removed from the balance sheet and revenue is recognized. Governmental Funds also defer revenue recognition in connection with resources received, but not yet earned.

7. Deferred Outflows / Deferred Inflows

In addition to assets, the statement of net position and the governmental funds balance sheet may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position / fund balance that applies to future periods. At April 30, 2017, the City has deferred outflows of resources related to pensions and the loss on refunding of bonds. In addition to liabilities, the City may report deferred inflows of resources. Deferred inflows of resources represent the acquisition of resources that is applicable to future reporting periods. At April 30, 2017, the City had deferred inflows related to property taxes levied for a future period and pension liabilities.

8. Budgets

Budgets and appropriations are adopted on a basis consistent with GAAP. Annual appropriations are adopted for the general, special revenue, debt service, capital projects, enterprise, internal service, and pension trust funds. All annual appropriations lapse at fiscal year-end.

The annual appropriation exceeded the annual budget by 8.70%. Budget information is used for comparison to operations in various schedules as it reflects the operational plans set forth by the City.

9. Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, and investments with original maturities of less than three months, from the date of purchase.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Investments

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price.

11. Fair Value Measurements

Current accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2: Inputs to the valuation methodology include the following:

- * Quoted prices for similar assets or liabilities in active markets;
- * Quoted prices for identical or similar assets or liabilities in inactive markets;
- * Inputs other than quoted prices that are observable for the asset or liability;
- * Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for the City's investments measured at fair value.

U.S. Agency Securities: Valued at closing price of similar instruments with comparable durations reported on the active market on which the individual securities are traded.

U.S. Treasury Securities: Valued at closing price of similar instruments reported on the active market on which the individual securities are traded.

Common Stock: Valued at the closing price reported on the active market on which the individual securities are traded.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Fair Value Measurements (Continued)

Corporate and Municipal/Government Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the City are open-end mutual funds that are registered with the Securities and Exchange Commission.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

12. Receivables

The recognition of receivables and revenue associated with exchange and nonexchange transactions is as follows:

- Derived tax receivables (such as: sales, income, and motor fuel taxes) are recognized when the underlying exchange has occurred.
- Imposed nonexchange receivables (such as: property taxes and fines) are recognized when an enforceable legal claim has arisen.
- Government mandates or voluntary nonexchange transaction receivables (such as: mandates or grants) are recognized when all eligibility requirements have been met.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all utility receivable balances that have had a final reading and estimates the portion, if any, of the balance that will not be collected.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Receivables (Continued)

The City participates in federally funded forgivable rehabilitation loan programs that allow citizens to apply for money designated for the improvement of property, recorded in non major governmental funds. Each loan provided is subject to various compliance criteria and may be forgiven or partially forgiven under the provisions of the federal loan programs. The City maintains the loans at a value net of an allowance for properties in which the repayment is not anticipated. The carrying value of these loans reported in other receivables, net of an allowance of \$219,221, was \$223,656 at April 30, 2017. Lake County, Illinois personnel assume the responsibility for maintaining the federal programs on behalf of the City. Based upon a review of the outstanding loans and the review of the allowance for loans outstanding, \$23,221 of loans, net of existing allowances, were forgiven or written off in fiscal 2017. These balances are reported as other receivables in the nonmajor governmental funds on the governmental funds balance sheet.

13. Interfund Receivables and Payables

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

14. Prepaid Items

Certain payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both the government-wide and the fund financial statements. The costs of prepaid items is recorded as expenditures when consumed rather than when purchased.

15. Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

16. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined as having a useful life greater than one year with an initial, individual cost of more than \$5,000, except for infrastructure, which has a capitalization threshold of \$100,000. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and improvements	45 - 50 years
Infrastructure	15 - 80 years
Library collections	3 - 7 years
Machinery and equipment	5 - 15 years
Underground equipment	45 years

17. Property Held for Resale

The City values its property held for resale at cost. For the year ended April 30, 2017, the City received an valuation appraisal and recognized an impairment loss of \$2,590,809 and \$103,137 on property held for resale within the Sheridan Crossing Tax Increment Financing Redevelopment Project Area Fund and the Downtown Tax Increment Financing Redevelopment Project Area Fund, respectively. The City intends to sell various parcels of property in the future to residential and commercial developers. Future valuations are subject to market conditions and could significantly differ from current carrying value.

18. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay, and other employee benefits. All unpaid vacation, sick pay, and other employee benefits due in the event of termination are accrued when incurred in the government-wide and proprietary fund financial statements, in accordance with the City's policies. If an employee has accumulated hours in excess of 560 hours, all such excess hours will be paid at one-half the employee's hourly salary, at the beginning of each fiscal year. At April 30, 2017, the City has \$1,989,695 in accumulated unpaid vacation, sick pay, and other employee benefits at the year-end for governmental fund employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee termination, resignations and retirements. At April 30, 2017 the City has \$200,476 in accumulated unpaid vacation, sick pay, and other employee benefits at the year-end for proprietary fund employees.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities statement of net position. Bond premiums and discounts, and losses on refunding of bonds, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, losses on refunding, and bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs and losses on refunding are reported as debt service expenditures.

20. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

21. Property Tax Revenue

Property taxes are levied by the second week of December and are based on the assessed value of property as determined by the previous January 1. Assessed values are approximately one-third of market value. A valuation of all real property must be made once every four years. Tax bills for the 2016 levy year are payable in two installments on or about June 1, 2017 and September 1, 2017.

Property taxes are recognized when they become measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period. Taxes collected after this 60-day period are recorded as unearned revenue. Based on the City's collection experience, it has been determined that no allowance for uncollectible property taxes is necessary.

22. Postemployment Healthcare Benefits

Retirees are eligible to continue their current level of healthcare benefit coverage if they have at least eight years of service. Individuals who participate in IMRF are allowed to receive health care benefit coverage regardless of the number of years of service. Coverage includes health, medical, dental, and life. Once retirees reach age 65, the premium is reduced to take Medicare coverage into account. The premiums are fully reimbursed by employees who elect coverage, and no direct costs are incurred by the City.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

23. Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position (Deficit)

The governmental funds balance sheet includes a reconciliation between total fund balances – governmental funds and net position of governmental activities as reported in the government-wide statement of net position (deficit).

One element of that reconciliation explains that “Long-term liabilities are not due and payable in the current period. Therefore, these liabilities are not reported in the current period and, consequently, are not reported in the governmental funds.” The details of this difference are as follows:

General obligation bonds payable	\$ (18,765,000)
Bond issuance premium	(335,785)
Lawsuit settlement liability	(44,800)
Note payable to Lake Forest Bank and Trust	(232,735)
Note payable to Illinois Finance Authority	(100,000)
Note payable to Illinois Department of Revenue	(982,890)
Library note payable to First Midwest Bank	(348,003)
Compensated absences payable	(1,989,695)
Other postemployment benefits obligation	(132,532)
IMRF net pension liability	(794,357)
Police net pension liability	(66,591,619)
Firefighters' net pension liability	<u>(29,823,640)</u>
Net adjustment to reduce total fund balances - governmental funds to net deficit of governmental activities	<u>\$ (120,141,056)</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

2. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and change in net position - governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Depreciation expense	\$ (1,517,934)
Capital outlay	1,568,820
Loss on disposals	<u>(34,877)</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position (deficit) - governmental activities	<u>\$ 16,009</u>

Another element of that reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Principal retirement of long-term debt	\$ 1,601,427
Issuance of long-term debt	<u>(332,735)</u>
Net long-term debt adjustment to increase net change in fund balances - funds to arrive at change in net position (deficit) - governmental	<u>\$ 1,268,692</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this difference are as follows:

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(Continued)

2. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Compensated absences (net change)	\$	(172,644)
Amortization of bond issuance premium		78,665
Other postemployment benefits obligation (net change)		(7,861)
Lawsuit settlement liability (net change)		1,400
Police pension liability (net change)		4,715,399
Firefighters' pension liability (net change)		1,794,200
IMRF pension liability (net change)		<u>196,342</u>
Net current adjustment to increase net change in fund balances - total funds to arrive at change in net position (deficit) - governmental	\$	<u><u>6,605,501</u></u>

NOTE C - DEPOSITS AND INVESTMENTS

1. City Deposits and Investments

As of April 30, 2017, the City's cash, cash equivalents, and investments consisted of the following:

	<u>Government-</u> <u>wide</u>	<u>Fiduciary</u>	<u>Total</u>
Cash, cash equivalents, and investments	\$ <u>24,012,655</u>	\$ <u>24,391,585</u>	\$ <u><u>48,404,240</u></u>
City			
Cash on hand		\$ 6,403	
Deposits with financial institutions*		21,366,184	
The Illinois Funds		<u>2,640,068</u>	
Cash, cash equivalents, and investments - Government-wide		<u>24,012,655</u>	
Police and Firefighters' Pension Trust Funds			
Deposits with financial institutions*		1,180,252	
Other investments		<u>23,211,333</u>	
Cash, cash equivalents, and investments - Fiduciary		<u>24,391,585</u>	
Total		<u>\$ 48,404,240</u>	

* Includes non-negotiable certificates of deposit and money market savings accounts, but primarily consists of accounts held in demand and savings accounts, which are valued at cost.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

1. City Deposits and Investments (Continued)

The City maintains a cash and investment pool that is available for use by most funds. The City's portion of this pool is displayed on the combined balance sheet as "cash and cash equivalents". The City is authorized by its own local ordinances and state statutes, to invest in the following:

- Short-Term Obligations of Corporations organized in the United States with assets exceeding \$500,000,000.
- Certificates of Deposit insured up to \$250,000 by the Federal Deposit Insurance Corporation or appropriately collateralized.
- Obligations of the U.S. Treasury or its agencies.
- Saving Accounts insured up to \$250,000 by the Federal Deposit Insurance Corporation or appropriately collateralized.
- Money Market Mutual Funds registered by the SEC.
- The Illinois Funds.
- State of Illinois Public Treasurer's Investment Pool.
- Bonds of the State of Illinois and any local government in the State of Illinois, which bonds have at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.
- Any investments authorized by the Public Funds Investment Act.

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company. Investments in Illinois Funds are rated AAAM and are valued at Illinois Funds' share price, which is the price for which the investment could be sold. There are no unfunded commitments, the redemption in frequency is daily, and the redemption notice period is one day.

Custodial Credit Risk (Deposits) - With respect to deposits, this is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's investment policy states that deposits should have a collateralization ratio of 110% of the fair market value of funds secured, with collateral held by a third-party custodian designated by the Investment Officer and evidenced by safekeeping receipts. The bank balances of the City's deposits with financial institutions, were not exposed to custodial credit risk, as the balances were fully insured or collateralized as of April 30, 2017.

Investment Policy - It is the policy of the City to invest its funds in a manner which will provide the highest investment return with the maximum security, while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds. The primary objectives of the policy are, in order of priority, safety of principal, liquidity, and rate of return.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

1. City Deposits and Investments (Continued)

Interest Rate Risk - The City's investment policy limits investment maturities to no more than three years from the date of purchase as a means of managing its exposure to fair value losses arising from increasing interest rates. The objective is to maintain a core portfolio with maturities in the one- to three-year range.

Credit Risk - Credit risk is the risk that the issuer of a debt security will not pay its par value upon maturity. State law limits investments in commercial paper, corporate bonds, and mutual bonds funds to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy imposes further limits on investment choices and prohibits investments in "derivative" securities and in repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986. The Illinois Funds is rated AAAM.

Custodial Credit Risk (Investments) - With respect to investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's investment policy states that deposits should have a collateralization ratio of 110% and securities held by a third-party custodian designated by the Investment Officer and evidenced by safekeeping receipts.

Concentration of Credit Risk - It is the policy of the City to diversify its investment portfolio. Investments shall be diversified to limit the risk of loss resulting in overconcentration in a security, maturity, issuer, or class of securities. The City's investment policy, which is more restrictive than state statute, requires the City to diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools (Illinois Funds), no more than 75% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

2. Police and Firefighters' Pension Deposits, Investments, and Concentrations

The deposits and investments of the police and firefighters' pension trust funds (collectively, the "Pension Trust Funds") are held separately from those of other City funds. Statutes and the Pension Trust Funds' investment policies authorize the Pension Trust Funds to make deposits/invest in interest-bearing direct obligations of the United States of America; obligations that are fully guaranteed or insured as to the payment of principal and interest by the United States of America; bonds, notes, debentures, or similar obligations of agencies of the United States of America; savings accounts or certificates of deposit issued by banks or savings and loan associations chartered by the United States of America or by the State of Illinois, to the extent that the deposits are insured by the agencies or instrumentalities of the federal government; credit unions, to the extent that the deposits are insured by the agencies or instrumentalities of the federal government; state of Illinois bonds; pooled accounts managed by the Illinois Public Treasurer, or by banks, their subsidiaries or holding companies, in accordance with the laws of the State of Illinois.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

2. Police and Firefighters' Pension Deposits, Investments, and Concentrations (Continued)

Also authorized are deposits or investments in money market mutual funds managed by investment companies that are registered under the federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies, provided the portfolio is limited to specified restrictions; general accounts of life insurance companies; and separate accounts of life insurance companies and mutual funds, the mutual funds must meet specific restrictions, provided the investment in separate accounts and mutual funds does not exceed ten percent of the Pension Trust Funds' plan net position; and corporate bonds managed through an investment advisor, rated as investment grade by one of the two largest rating services at the time of purchase. Pension funds with plan net position of \$2.5 million or more may invest up to forty-five percent of plan net position in separate accounts of life insurance companies and mutual funds. Pension funds with plan net position of at least \$5 million and that have appointed an investment advisor, may, through that investment advisor, invest up to forty-five percent of the plan's net assets in common and preferred stocks that meet specific restrictions. In addition, pension funds with plan net position of at least \$10 million that have appointed an investment advisor, may invest up to fifty-five percent of its net plan position in common and preferred stocks and mutual funds that meet specific restrictions effective July 1, 2012.

a. Credit Risk, Custodial Risk, and Concentration Risk

Deposits - At year-end, the carrying amount of the Pension Trust Funds' deposits totaled \$1,180,252, and the related bank balances totaled \$1,180,541.

Investments - The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Pension Trust Funds have the following recurring fair value measurements as of April 30, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Total
Debt Securities				
U.S. Treasuries	\$ 2,376,655	\$ 233,372	\$ -	\$ 2,610,027
Corporate Bonds	-	3,986,274	-	3,986,274
Equity Securities				
Insurance Contracts	3,691,129	-	-	3,691,129
Equity Securities	4,867,350	-	-	4,867,350
Mutual Funds	8,056,553	-	-	8,056,553
Total investments by fair value level	<u>\$ 18,991,687</u>	<u>\$ 4,219,646</u>	<u>\$ -</u>	<u>\$ 23,211,333</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

2. Police and Firefighters' Pension Deposits, Investments, and Concentrations (Continued)

a. Credit Risk, Custodial Risk, and Concentration Risk (Continued)

Investments (Continued)

As of April 30, 2017, the Pension Trust Funds have the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less than 1	1 to 5	6 to 10	More than 10
Corporate bonds	\$ 3,986,274	\$ -	\$ 3,986,274	\$ -	\$ -
U.S. Government and Agency Obligations	233,372	-	-	-	233,372
U.S. Treasury Bonds	2,376,655	253,745	1,091,318	1,031,592	-
	6,596,301	\$ 253,745	\$ 5,077,592	\$ 1,031,592	\$ 233,372
Equity Securities	16,615,032				
	<u>\$ 23,211,333</u>				

The Pension Trust Funds assume that any callable securities will not be called.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Pension Trust Funds' investment policy limits its exposure to interest rate risk by structuring the portfolio to "provide liquidity while at the same time matching investment maturities to projected fund liabilities."

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Pensions Trust Funds help limit their exposure to credit risk by primarily investing in securities issued by the United States Government and/or its agencies that are implicitly guaranteed by the United States Government. The Pension Trust Funds' investment policy establishes criteria for allowable investments; those criteria follow the requirements of the Illinois Pension Code. The investments in the securities of U.S. government and agency obligations were rated AAA and Corporate Bonds are rated BBB or better by Standard & Poor's or by Moody's Investors Services. Pension Trust Funds' investment policies prescribe to the "prudent person" rule, which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the primary objective of safety as well as the secondary objective of the attainment of market rates of return."

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

2. Police and Firefighters' Pension Deposits, Investments, and Concentrations (Continued)

a. Credit Risk, Custodial Risk, and Concentration Risk (Continued)

Custodial Credit Risk (Deposits) - In the case of deposits, this is the risk that, in the event of a bank failure, the Pension Trust Funds' deposits may not be returned.

The Police Pension Trust Fund does not have a formal written policy with regards to custodial credit risk for deposits. The Police Pension Trust Fund's investment policy does not require pledging of collateral for all bank balances in excess of federal depository insurance, since flow-through FDIC insurance is available for the Pension Trust Fund's deposits with financial institutions. At April 30, 2017, \$35,281 of the bank balance of the deposits was uninsured by federal depository insurance and uncollateralized.

The Firefighters' Pension Trust Fund's investment policy requires pledging of collateral with a fair value of not less than 110% of all bank balances in excess of federal depository insurance. At April 30, 2017, \$305,253 of the bank balance of the deposits was uninsured by federal depository insurance and uncollateralized.

Custodial Credit Risk (Investments) - The Pension Trust Funds limit exposure to custodial credit risk related to investments by utilizing an independent third party institution, selected by the Pension Trust Funds, to act as custodian for its securities and collateral.

Concentration of Credit Risk - The risk of loss attributed to the magnitude of the Pension Trust Funds' investment in a single issuer.

The Pension Trust Funds' investment policy in accordance with Illinois Compiled Statutes (ILCS), establishes the following target allocation across asset classes:

Police Pension Trust Fund		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and cash equivalents	3.00%	0.00%
Fixed income	40.00%	0.10% - 4.50%
Equities	57.00%	5.00% - 7.00%

ILCS limit the Pension Trust Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% to the total fund.

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

2. Police and Firefighters' Pension Deposits, Investments, and Concentrations (Continued)

a. Credit Risk, Custodial Risk, and Concentration Risk (Continued)

Concentration of Credit Risk (Continued)

Firefighters' Pension Trust Fund		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	0% - 100%	1.40%
Equities	0% - 55%	5.43%

ILCS limit the Pension Trust Fund's investments in equities, mutual funds and variable annuities to 45%. Securities in any one company should not exceed 5% to the total fund.

The long-term expected rate of return on the Pension Trust Funds' investments were determined using an asset allocation study conducted by the Pension Trust Funds' investment management consultant in April 2016 and 2015 for the Police Pension Trust Fund and Firefighters' Pension Trust Fund, respectively, in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Pension Trust Funds' target asset allocation as of April 30, 2017 are listed in the tables above.

Police pension trust fund

The Police Pension Fund does not have a formal written policy with regards to concentration of credit risk. At April 30, 2017, the Fund does not have any investments over 5% of fiduciary net position. Agency investments represent a large portion of the portfolio; however the investments are diversified by maturity date and are backed by the issuing organization.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

2. Police and Firefighters' Pension Deposits, Investments, and Concentrations (Continued)

a. Credit Risk, Custodial Risk, and Concentration Risk (Continued)

Concentration of Credit Risk (Continued)

Police pension fund (Continued)

The Police Pension Fund has diversified the equity mutual fund holdings as follows:

<u>Insurance Contracts and Equity Mutual Funds</u>	<u>Fair Value</u>
AXA Equitable Insurance Contracts	\$ 1,737,424
Jackson National Life Insurance Contract	451,658
VOYA Insurance Contract	<u>326,748</u>
 Total Insurance Contracts	 \$ <u><u>2,515,830</u></u>
 Select Sector SPDR ETF Funds	 \$ 1,405,250
Vanguard ETF Funds	1,187,564
Vanguard Mutual Funds	809,894
PIMCO Bond Funds	459,547
Putnam Absolute Return Fund	223,945
American Funds Global Balanced Fund	223,158
AllianzGI Short Duration High Income Fund	222,167
Guggenheim Enhance Short Duration ETF Fund	165,792
PIMCO Enhanced Short Maturity Active EFT Fund	165,775
iShares Edge MSCI ETF Fund	135,153
WisdomTree Mid-Cap Dividend Fund	133,261
SPDR & S&P Dividend ETF Fund	129,355
T. Rowe Price Personal Strategy Growth Fund	126,577
American Funds Capital World Growth & Income Fund	126,078
BlackRock Multi-Asset Income Portfolio	119,733
BlackRock Credit Strategies Income Fund	117,927
Eaton Vance Global Macro Absolute Return Fund	116,947
Dodge & Cox Income Bond Fund	116,366
John Hancock Income Fund	116,219
Janus Flexible Bond Fund	115,597
Lord Abbett Short Duration Income Bond Fund	<u>115,018</u>
 Total Equity Mutual Funds	 \$ <u><u>6,331,323</u></u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

2. Police and Firefighters' Pension Deposits, Investments, and Concentrations (Continued)

a. Credit Risk, Custodial Risk, and Concentration Risk (Continued)

Concentration of Credit Risk (Continued)

Firefighters' pension fund

The Firefighters' Pension Fund investment policy states "investments of the plan will be diversified so as to minimize the risk of large losses, unless it is clearly prudent not to do so." At April 30, 2017, the Fund does not have any investments over 5% of fiduciary net position. Agency investments represent a large portion of the portfolio; however the investments are diversified by maturity date and are backed by the issuing organization.

The Firefighters' Pension Fund has diversified the equity mutual fund holdings as follows:

<u>Insurance Contract and Equity Mutual Funds</u>	<u>Fair Value</u>
Prudential Insurance Contract	\$ <u>1,175,299</u>
iShares U.S. Financials ETF Fund	\$ 311,310
SPDR S&P Dividend ETF Fund	310,310
Consumer Staples Select Sector SPDR ETF Fund	275,900
First Trust NASDAQ-100 Equal Weighted Index Fund	262,400
Technology Select Sector SPDR ETF Fund	190,330
Industrial Select Sector SPDR ETF Fund	185,752
Vanguard Total Stock Market Index ETF Fund	122,610
Guggenheim S&P 500 Equal Weight ETF Fund	45,710
SPDR Dow Jones Industrial Average ETF Fund	<u>20,908</u>
Total Equity Mutual Funds	\$ <u>1,725,230</u>

b. Rate of Return

For the year ended April 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.53% and 7.96% for the Police and Firefighters' pension plans, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE D - INTERFUND RECEIVABLES AND PAYABLES

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances are intended to be repaid currently from other resources of respective funds. Individual interfund balances at April 30, 2017 are shown as follows:

	Due From	Due To
Major Governmental Funds		
General Fund	\$ 155,850	\$ 143,593
Sheridan Crossing Tax Increment Financing Redevelopment Project Area	-	209,534
Nonmajor Governmental Funds (including Internal Service Funds)	858,508	593,231
Major Proprietary Funds		
Water, Sewer, and Refuse Fund	27,491	95,491
	1,041,849	1,041,849
Less amounts eliminated during GASB 34 adjustments and net adjustments to interfund balances	973,849	973,849
Total internal balances as shown on the statement of net position	\$ 68,000	\$ 68,000

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2017, was as follows:

1. Governmental Activities

	Balance May 1, 2016			Balance April 30, 2017
	As restated*	Increases	Decreases	
Capital assets not being depreciated				
Land	\$ 2,831,841	\$ 21,265	-	\$ 2,853,106
Assets not yet placed in service	-	241,168	-	241,168
Total capital assets not being depreciated	2,831,841	262,433	-	3,094,274
Capital assets being depreciated				
Land improvements	502,648	-	-	502,648
Buildings and improvements	5,766,392	-	46,047	5,720,345
Infrastructure	22,754,797	1,096,196	4,168	23,846,825
Library collections	695,304	42,480	159,736	578,048
Machinery and equipment	8,185,818	173,741	418,420	7,941,139
Total capital assets being depreciated	37,904,959	1,312,417	628,371	38,589,005

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE E - CAPITAL ASSETS (Continued)

1. Governmental Activities (Continued)

	Balance May 1, 2016 <u>As restated*</u>	<u>Increases</u>	<u>Decreases</u>	Balance April 30, 2017
Less accumulated depreciation for				
Land improvements	\$ 205,074	\$ 17,837	-	\$ 222,911
Buildings and improvements	3,203,438	120,732	46,047	3,278,123
Infrastructure	10,714,715	671,879	4,168	11,382,426
Library collections	536,030	50,623	159,736	426,917
Machinery and equipment	<u>5,498,242</u>	<u>656,863</u>	<u>383,543</u>	<u>5,771,562</u>
Total accumulated depreciation	<u>20,157,499</u>	<u>1,517,934</u>	<u>593,494</u>	<u>21,081,939</u>
 Total capital assets being depreciated, net	 <u>17,747,460</u>	 <u>(205,517)</u>	 <u>34,877</u>	 <u>17,507,066</u>
 Governmental activities capital assets, net	 <u>\$ 20,579,301</u>	 <u>\$ 56,916</u>	 <u>\$ 34,877</u>	 <u>\$ 20,601,340</u>

2. Business-type Activities

	Balance May 1, 2016 <u>As restated*</u>	<u>Increases / Transfers**</u>	<u>Decreases / Transfers**</u>	Balance April 30, 2017
Capital assets not being depreciated				
Land	\$ <u>2,435</u>	\$ -	\$ -	\$ <u>2,435</u>
 Total capital assets not being depreciated	 <u>2,435</u>	 <u>-</u>	 <u>-</u>	 <u>2,435</u>
 Capital assets being depreciated				
Land improvements	209,813	-	-	209,813
Buildings	8,341,725	-	-	8,341,725
Machinery and equipment	16,856,028	-	11,834,641	5,021,387
Underground equipment	<u>17,035,301</u>	<u>11,828,920</u>	<u>-</u>	<u>28,864,221</u>
 Total capital assets being depreciated	 <u>\$ 42,442,867</u>	 <u>\$ 11,828,920</u>	 <u>\$ 11,834,641</u>	 <u>\$ 42,437,146</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE E - CAPITAL ASSETS (Continued)

2. Business-type Activities (Continued)

	Balance May 1, 2016 <u>As restated*</u>	Increases / Transfers**	Decreases / Transfers**	Balance April 30, 2017
Less accumulated depreciation for				
Land improvements	\$ 106,424	\$ 2,912	-	\$ 109,336
Buildings	4,249,293	180,600	-	4,429,893
Machinery and equipment	11,386,752	218,851	7,886,048	3,719,555
Underground equipment	<u>10,772,546</u>	<u>8,218,311</u>	<u>-</u>	<u>18,990,857</u>
 Total accumulated depreciation	 <u>26,515,015</u>	 <u>8,620,674</u>	 <u>7,886,048</u>	 <u>27,249,641</u>
 Total capital assets being depreciated, net	 <u>15,927,852</u>	 <u>3,208,246</u>	 <u>3,948,593</u>	 <u>15,187,505</u>
 Business-type activities capital assets, net	 <u>\$ 15,930,287</u>	 <u>\$ 3,208,246</u>	 <u>\$ 3,948,593</u>	 <u>\$ 15,189,940</u>

* See Note O for information regarding the prior period adjustment to capital assets.

** See Note A-4 for information regarding the City combining the sewer and refuse activities into the water fund during fiscal year 2017 (presented at the "Water, Sewer, and Refuse Fund").

3. Depreciation

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities

Administration and general government	\$ 247,605
Police	242,419
Fire	321,150
Public works	671,879
Library	<u>34,881</u>

Total depreciation expense - governmental activities \$ 1,517,934

Business-type activities

 Water / Sewer \$ 740,347

Total depreciation expense - business-type activities \$ 740,347

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES

1. Changes in Long-Term Liabilities

The following is a summary of the City's long-term debt balances and transactions for the year ended April 30, 2017:

	<u>Balance</u> <u>May 1, 2016</u>	<u>Additions /</u> <u>Issuances</u>	<u>Reductions /</u> <u>Retirements</u>	<u>Balance</u> <u>April 30, 2017</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation bonds					
Series 2007A	\$ 1,680,000	-	\$ 195,000	\$ 1,485,000	\$ 210,000
Series 2007B	4,740,000	-	-	4,740,000	-
Series 2007C	7,570,000	-	345,000	7,225,000	405,000
Series 2014A Refunding	6,010,000	-	695,000	5,315,000	755,000
Bond issuance					
premium	414,450	-	78,665	335,785	78,665
Lawsuit settlement					
liability	46,200	6,400	7,800	44,800	7,800
Note payable to Lake					
Forest Bank and Trust	-	232,735	-	232,735	75,288
Note payable to Illinois					
Finance Authority	-	100,000	-	100,000	20,000
Note payable to Illinois					
Department of Revenue	1,194,090	-	211,200	982,890	211,200
Library note payable					
to First Midwest Bank	387,808	-	39,805	348,003	41,282
Capital leases	115,422	-	115,422	-	-
Compensated absences	1,817,051	179,905	7,261	1,989,695	-
Other postemploy-					
ment benefits	124,671	101,127	93,266	132,532	-
IMRF net pension					
liability	990,699	1,514,898	1,711,240	794,357	-
Police net pension					
liability	71,307,018	6,507,174	11,222,573	66,591,619	-
Firefighters' net pension					
liability	31,617,840	3,939,669	5,733,869	29,823,640	-
Governmental					
activity long-term					
liabilities	<u>\$ 128,015,249</u>	<u>\$ 12,581,908</u>	<u>\$ 20,456,101</u>	<u>\$ 120,141,056</u>	<u>\$ 1,804,235</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES (Continued)

1. Changes in Long-Term Liabilities (Continued)

	<u>Balance</u> <u>May 1, 2016</u>	<u>Additions/</u> <u>Issuances</u>	<u>Reductions/</u> <u>Retirements</u>	<u>Balance</u> <u>April 30, 2017</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities					
General obligation bonds					
Series 2014B Refunding \$	2,275,000 \$	-	\$ 195,000 \$	2,080,000 \$	200,000
Bond issuance premium	181,308	-	22,665	158,643	22,664
Enterprise note payable to First Midwest Bank	51,848	-	34,235	17,613	17,613
Note payable to Abbott Laboratories	234,745	-	55,517	179,228	56,000
Note payable to Illinois Environmental Protection Agency	839,191	-	57,875	781,316	57,875
Compensated absences	161,618	38,858	-	200,476	-
IMRF net pension liability	<u>424,585</u>	<u>649,242</u>	<u>733,388</u>	<u>340,439</u>	<u>-</u>
Business-type activity long-term liabilities					
	<u>\$ 4,168,295</u>	<u>\$ 688,100</u>	<u>\$ 1,098,680</u>	<u>\$ 3,757,715</u>	<u>\$ 354,152</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES (Continued)

2. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds, therefore, are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Governmental activities

\$2,475,000 General Obligation Bonds, Series 2007A, dated May 9, 2007. Principal is payable on November 1 of each year. Interest is payable on May 1 and November 1 of each year at a rate of 4%.	\$ 1,485,000
\$4,740,000 General Obligation Bonds, Series 2007B, dated May 9, 2007. Principal is payable on November 1 of each year starting in 2028. Interest is payable on May 1 and November 1 of each year at rates ranging from 4.30 to 4.35%.	4,740,000
\$8,860,000 General Obligation Bonds, Series 2007C, dated August 15, 2007. Principal is payable on November 1 of each year. Interest is payable on May 1 and November 1 of each year at rates ranging from 5.81 to 6.01%.	7,225,000
\$6,010,000 General Obligation Bonds, Series 2014A Refunding, dated February 4, 2015. Principal is payable on November 1 of each year. Interest is payable on May 1 and November 1 of each year at rates ranging from 3.0 to 4.0%.	<u>5,315,000</u>
Total governmental activities general obligation bonds outstanding	\$ <u>18,765,000</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES (Continued)

2. General Obligation Bonds (Continued)

Business-type activities

\$2,275,000 General Obligation Bonds, Series 2014B Refunding, dated February 4, 2015. Principal is payable on November 1 of each year. Interest is payable on May 1 and November 1 of each year at rates ranging from 3.0 to 4.0%,

	\$ <u>2,080,000</u>
Total business-type general obligation bonds outstanding	2,080,000
Total general obligation bonds outstanding	\$ <u><u>20,845,000</u></u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending</u> <u>April 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,370,000	\$ 866,272	\$ 200,000	\$ 76,150
2019	1,475,000	809,635	205,000	70,075
2020	1,580,000	744,407	215,000	62,700
2021	1,710,000	669,450	220,000	54,000
2022	1,840,000	588,343	230,000	45,000
2023-2027	5,140,000	1,933,049	1,010,000	82,600
2028-2032	2,680,000	942,351	-	-
2033-2037	2,670,000	423,228	-	-
2038	300,000	6,525	-	-
Total	\$ 18,765,000	\$ 6,983,260	\$ 2,080,000	\$ 390,525

3. Lawsuit Settlement Liability

During fiscal year 2006, the City reached a settlement for an alleged wrongful termination of a former employee. Under this agreement, the City is required to make monthly payments for the rest of the former employee's life. The estimated present value of these future settlement payments of \$44,800 has been recorded as a liability, at April 30, 2017.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES (Continued)

4. Note Payable to Lake Forest Bank and Trust

In April 2017, the City entered into an agreement with Lake Forest Bank and Trust, in the total amount of \$232,735 to be used for financing the purchase of new pursuit vehicles for the police department. Principal and interest payments amounting to \$6,774 are due monthly based on a 3 year amortization schedule for the loan. Interest is charged at 3.05%. The balance at April 30, 2017 is \$232,735.

At April 30, 2017, the City is obligated for future payments under the loan payable as follows:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 75,288	\$ 5,996	\$ 81,284
2019	77,557	3,727	81,284
2020	<u>79,890</u>	<u>1,329</u>	<u>81,219</u>
Total	<u>\$ 232,735</u>	<u>\$ 11,052</u>	<u>\$ 243,787</u>

5. Note Payable to Illinois Finance Authority

In October 2017, the City entered into an agreement with the Illinois Finance Authority, in the total amount of \$100,000 to be used for financing the purchase of a new ambulance. Principal and interest payments ranging from \$20,372 to \$21,860 are due annually based on a 5 year amortization schedule for the loan. Interest is charged at 1.86%. The balance at April 30, 2017 is \$100,000.

At April 30, 2017, the City is obligated for future payments under the loan payable as follows:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 20,000	\$ 1,860	\$ 21,860
2019	20,000	1,488	21,488
2019	20,000	1,116	21,116
2019	20,000	744	20,744
2020	<u>20,000</u>	<u>372</u>	<u>20,372</u>
Total	<u>\$ 100,000</u>	<u>\$ 5,580</u>	<u>\$ 105,580</u>

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES (Continued)

6. Note Payable to Illinois Department of Revenue

In January 2012, the City was notified by the State of Illinois that \$2,109,290 in local sales tax was reported to the Department in error by a retailer in the City. The sales tax was previously distributed by the State to the City. As such, the City is liable for repayment of the local sales tax to the State. Due to the sizeable amount of the repayment, a monthly installment repayment plan was agreed upon between the City and the State of Illinois. Monthly payments commenced in January 2012, with \$17,600 being deducted from the City's regular monthly sales tax distribution for a period of 120 months. Further, under the Economic Development Agreement between Abbott Laboratories Purchasing Company ("ALPC") and the City, the City paid ALPC 50%, or \$1,054,645, of the local sales tax refund originally received. In 2013, ALPC repaid their refund liabilities portion to the City in full. The note is non-interest bearing. The balance at April 30, 2017 is \$982,890.

At April 30, 2017, the City is obligated for future payments under the loan payable as follows:

Year Ending April 30,	Principal
2018	\$ 211,200
2019	211,200
2020	211,200
2021	211,200
2022	138,090
Total	\$ 982,890

7. Library Note Payable to First Midwest Bank

In October 2014, the City entered into an agreement with First Midwest Bank, in the total amount of \$446,860 to be used for financing building improvements on the City Library. Principal and interest payments amounting to \$4,442 are due monthly based on a 10 year amortization schedule for the loan. Interest is charged at 3.65%. The balance at April 30, 2017 is \$348,003 and is set to mature in October 2024.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES (Continued)

7. Library Loan Payable to First Midwest Bank (Continued)

At April 30, 2017, the City is obligated for future payments under the loan payable as follows:

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 41,282	\$ 12,016	\$ 53,298
2019	42,815	10,484	53,299
2020	44,404	8,895	53,299
2021	46,052	7,246	53,298
2022	47,761	5,537	53,298
2023 - 2025	<u>125,689</u>	<u>5,943</u>	<u>131,632</u>
Total	<u>\$ 348,003</u>	<u>\$ 50,121</u>	<u>\$ 398,124</u>

8. Capital Leases

In previous years the City entered into various capital lease agreements with leasing companies for the lease of various vehicles. Monthly principal and interest payments ranged from \$849 - \$9,328, with interest charged at various rates between 4.40-5.15%. During the fiscal year ended April 30, 2017, all capital leases expired and no new leases were entered into.

9. Enterprise Fund Note Payable to First Midwest Bank

In October 2014, the City entered into an agreement with First Midwest Bank, in the total amount of \$100,772 for the purchase of four service trucks to be used by the water department. Principal and interest payments amounting to \$2,971 are due monthly based on a three year amortization schedule for the loan. Interest is charged at 3.85%. The balance at April 30, 2017 is \$17,613 and is set to mature in October 2017.

10. Note Payable to Abbott Laboratories

In May 2007, the City entered into an agreement with Abbott Laboratories for the construction of capital assets at the City's water treatment plant. The total cost of construction was \$945,000. The City will repay this obligation through a reduction of the water rate charged to Abbott Laboratories of \$0.25, until repaid in full. The balance due to Abbott Laboratories, at April 30, 2017, is \$179,228. The City estimated the current portion of this enterprise liability to be approximately \$56,000 based on prior history of credits issued.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE F - LONG-TERM LIABILITIES (Continued)

11. Note Payable to Illinois Environmental Protection Agency

In December 2009, the City entered into an agreement with the Illinois Environmental Protection Agency (IEPA) for the IEPA to provide a note payable to the City, in the amount of \$1,752,856, to be used to reimburse the Illinois Department of Transportation (IDOT) for sanitary sewer replacement construction costs. The City is required to make semi-annual principal payments, aggregating to \$57,875 annually, through October 2030. The note is non-interest bearing. The balance due to IEPA, at April 30, 2017, is \$781,316, which is recorded in the enterprise fund.

Year Ending April 30,	Principal
2018	\$ 57,875
2019	57,875
2020	57,875
2021	57,875
2022	57,875
2023-2027	289,375
2028-2031	202,566
Total	\$ 781,316

NOTE G - INTERFUND TRANSFERS

Transfers are used to (1) move revenues from the fund with collection authorization to the capital project fund or enterprise fund as debt service and interest payments become due or (2) move restricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorization. Interfund transfers are recorded for permanent transfers between funds which are not expected to be repaid. Aggregated, individual interfund transfers, during the fiscal year ended April 30, 2017, were as follows:

	Transfers In	Transfers Out
Governmental funds		
General Fund		
Water, Sewer, and Refuse Fund	\$ 2,175,000	\$ -
Downtown Tax Increment Financing Redevelopment Project Area	-	212,400
Nonmajor Governmental Funds	212,400	-
Total governmental funds	\$ 2,387,400	\$ 212,400

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE G - INTERFUND TRANSFERS (Continued)

Enterprise fund		
Water, Sewer, and Refuse Fund		
General Fund	\$	\$
Total enterprise fund	-	2,175,000
	<u> </u>	<u> </u>
Total all funds	\$	\$
	2,387,400	2,387,400
	<u> </u>	<u> </u>
Less amounts eliminated during GASB 34 adjustments	<u>(212,400)</u>	<u>(212,400)</u>
Total transfers	\$	\$
	<u>2,175,000</u>	<u>2,175,000</u>

NOTE H - CONCENTRATION OF RISK - REVENUE SOURCE

The City has one resident business from which it generates a significant amount of property tax and water and sewer revenue. Without this commercial entity, the City would be forced to obtain new revenue sources to continue to provide its current level of services.

NOTE I - PENSION LIABILITIES

The City participates in the Illinois Municipal Retirement Fund (IMRF), a statewide multiple-employer, public employee retirement system which acts as an investment and administrative agent. The IMRF plan covers substantially all of the City's employees other than police officers and firefighters. The City also maintains two separate, single-employer retirement plans established by state statute for the City's police officers and firefighters.

1. **Illinois Municipal Retirement Fund**

Plan Description

The City's defined benefit pension plan for regular employees provides retirement and disability benefits, postretirement increases, and death benefits to plan members and beneficiaries. The City's plan is managed with the Illinois Municipal Retirement Fund (IMRF), the administrator of an agent multi-employer public pension fund. A summary of IMRF's pension benefits is provided in the Benefits Provided section below. Details of all benefits are available from IMRF. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. That report is available for download at www.imrf.org.

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

1. **Illinois Municipal Retirement Fund (Continued)**

Benefits Provided

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP).

All three IMRF benefit plans have two tiers. Employees hired before January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

Employees hired on or after January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after ten years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with ten years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the lesser of 3% of the original pension amount, or 1/2 of the increase in the Consumer Price Index of the original pension amount.

Plan Membership

As of December 31, 2016, the following employees were covered by the benefit terms:

Retirees and beneficiaries currently receiving benefits	100
Inactive plan members entitled to but not yet receiving benefits	54
Active plan members	80
Total	234

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

1. **Illinois Municipal Retirement Fund** (Continued)

Contributions

As set by statute, the City's Regular Plan Members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The City's annual contribution rate for calendar year 2016 was 8.82%. For the fiscal year ended April 30, 2017 the City contributed \$427,524 to the plan. The City also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by IMRF's Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Net Pension Liability

The City's IMRF net pension liability was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The following are the methods and assumptions used to determine total pension liability at December 31, 2016:

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Price Inflation	2.75%
Salary Increases	3.75% to 14.50%
Investment Rate of Return	7.50%
Projected Retirement Age	Experience-based table of rates, specific to the type of eligibility condition, last updated for the 2014 valuation pursuant to an experience study of the period 2011-2013.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

1. Illinois Municipal Retirement Fund (Continued)

Actuarial Assumptions (Continued)

Mortality

For non-disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF specific rates were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives. For active members, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

1. **Illinois Municipal Retirement Fund** (Continued)

Actuarial Assumptions (Continued)

Long-term Expected Rate of Return (Continued)

Asset Class	Portfolio Target Percentage	Long-Term Expected Real Rate of Return
Domestic equity	38%	6.85%
International equity	17%	6.75%
Fixed income	27%	3.00%
Real estate	8%	5.75%
Alternative investments	9%	2.65% - 7.35%
Cash equivalents	1%	2.25%
Total	100%	

Single Discount Rate

A Single Discount Rate of 7.50% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

- a. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
- b. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.78%, and the resulting single discount rate is 7.50%.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

1. **Illinois Municipal Retirement Fund** (Continued)

Changes in Net Pension Liability (Asset)

The following table shows the components of the change in the City's net pension liability (asset) for the calendar year ended December 31, 2016:

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at December 31, 2015	\$ 22,796,136	\$ 21,380,852	\$ 1,415,284
Changes for the year:			
Service cost	477,467	-	477,467
Interest on the total pension liability	1,686,673	-	1,686,673
Difference between expected and actual experience of the total pension liability	(234,768)	-	(234,768)
Changes of assumptions	(27,863)	-	(27,863)
Contributions - employer	-	421,048	(421,048)
Contributions - employees	-	210,159	(210,159)
Net investment income	-	1,474,443	(1,474,443)
Benefit payments, including refunds of employee contributions	(1,031,753)	(1,031,753)	-
Other (net transfer)	-	76,347	(76,347)
Net changes	<u>869,756</u>	<u>1,150,244</u>	<u>(280,488)</u>
Balances at December 31, 2016	<u>\$ 23,665,892</u>	<u>\$ 22,531,096</u>	<u>\$ 1,134,796</u>

The net pension liability is allocated between the Governmental and Business-Type activities based upon covered payroll within the respective activities (Note F-1).

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the plan's net pension liability (asset), calculated using a Single Discount Rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher than the current rate:

	1% Lower (6.50%)	Current Discount Rate (7.50%)	1% Higher (8.50%)
Net pension liability (asset)	<u>\$ 4,162,593</u>	<u>\$ 1,134,796</u>	<u>\$ (1,326,171)</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

1. Illinois Municipal Retirement Fund (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended April 30, 2017, the City recognized pension expense of \$576,792. At April 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Amounts Related to Pensions</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Deferred Amounts to be Recognized in Pension Expense in Future Periods		
Differences between expected and actual experience	\$ 49,364	\$ 156,606
Change of assumptions	9,889	18,586
Net difference between projected and actual earnings on pension plan investments	<u>1,002,604</u>	<u>-</u>
Total deferred amounts to be recognized in pension expense in the future periods	<u>1,061,857</u>	<u>175,192</u>
Pension contributions made subsequent to the measurement date	<u>136,407</u>	<u>-</u>
Total deferred amounts related to pensions *	<u>\$ 1,198,264</u>	<u>\$ 175,192</u>

* The deferred amounts related to pensions are allocated between the Governmental and Business Type activities based upon covered payroll within the respective activities.

The City reported \$136,407 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the reporting year ended April 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

1. Illinois Municipal Retirement Fund (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Year Ended April 30,	Net Deferred Outflows of Resources
2018	\$ 290,564
2019	246,619
2020	326,091
2021	23,391
2022	-
Thereafter	-
Total	\$ 886,665

2. Police Pension Plan

Plan Description

The Police Pension Plan is a single-employer defined benefit pension plan that covers all sworn police personnel. The defined benefits and employee and minimum employer contribution levels are governed by Illinois Compiled Statutes (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The City accounts for the Fund as a pension trust fund. The Fund is governed by a five-member Board of Trustees. Two members of the Board are appointed by the City's Mayor, one member is elected by pension beneficiaries and two members are elected by active police employees.

The Plan is not included in the report of a public retirement system or another entity. Separate reports are issued for the Police Pension Plan and may be obtained by writing to the City of North Chicago at 1850 Lewis Avenue, North Chicago, Illinois 60064.

Basis of Accounting

The accrual basis of accounting is utilized by a pension trust fund. Under this method, additions to net position are recorded when earned and deductions from net position are recorded when the time related liabilities/deferred inflows are incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

2. **Police Pension Plan** (Continued)

Benefits Provided

The following is a summary of the Police Pension Plan as provided for in Illinois State Statutes.

The Police Pension Plan provides retirement benefits through two tiers of benefits as well as death and disability benefits. Covered employees hired before January 1, 2011 (Tier 1), attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit of ½ of the salary attached to the rank held on the last day of service, or for one year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.5 percent of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75 percent of such salary. Employees with at least eight years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit. The monthly benefit of a police officer who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3 percent of the original pension and 3 percent compounded annually thereafter.

Covered employees hired on or after January 1, 2011 (Tier 2), attaining the age of 55 or older with 10 or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officer salary for the pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3 percent compounded. The annual benefit shall be increased by 2.5 percent of such a salary for each additional year of service over 20 years up to 30 years to a maximum of 75 percent of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., ½ percent for each month under 55).

The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1st after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Non-compounding increases occur annually, each January thereafter. The increase is the lesser of 3% or ½ of the change in the Consumer Price Index for the proceeding calendar year.

Plan Membership

As of April 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	46
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	50
Total	97

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

2. **Police Pension Plan** (Continued)

Contributions

Covered employees are required to contribute 9.91% of their base salary to the Police Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the plan and the administrative costs as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the City to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. The City has chosen to use the following parameters to fund its pension plan above and beyond the state minimum. For the year ended April 30, 2017, the City's contribution was 29.62% of covered payroll.

Net Pension Liability

The City's police fund net pension liability was measured as of April 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation performed as of April 30, 2017, using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2017
Actuarial cost method	Entry age normal; Level % of pay
Asset valuation method	Market value
Assumptions	
Interest rate	7.00%
Discount rate	4.12%
Salary increases	2.83% - 11.70%
Projected increase in total payroll	3.50%
Inflation	2.50%

Mortality rates were based on an independent actuary assumption study for Illinois Police 2016.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

2. **Police Pension Plan** (Continued)

Single Discount Rate

A Single Discount Rate of 4.12% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

- a. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
- b. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.00%, the municipal bond rate is 3.82%, and the resulting single discount rate is 4.12%.

Changes in Net Pension Liability

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at April 30, 2016	\$ 86,049,134	\$ 14,742,116	\$ 71,307,018
Changes for the year:			
Service cost	2,077,062	-	2,077,062
Interest on the total pension liability	3,495,011	-	3,495,011
Difference between expected and actual experience of the total pension liability	882,242	-	882,242
Changes of assumptions*	(8,324,912)	-	(8,324,912)
Contributions - employer	-	1,245,337	(1,245,337)
Contributions - employees	-	422,719	(422,719)
Contributions - other	-	4,502	(4,502)
Net investment income (loss)	-	1,225,102	(1,225,102)
Benefit payment, including refunds of employee contributions	(2,437,557)	(2,437,557)	-
Administrative expense	-	(52,858)	52,858
Net changes	<u>(4,308,154)</u>	<u>407,245</u>	<u>(4,715,399)</u>
Balances at April 30, 2017	<u>\$ 81,740,980</u>	<u>\$ 15,149,361</u>	<u>\$ 66,591,619</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

2. Police Pension Plan (Continued)

Changes in Net Pension Liability (Continued)

* The assumptions were changed from the prior year. The assumed rate on High Quality 20 Year Tax-Exempt G.O. Bonds was changed from 3.32% to 3.82% for the current year. The discount rate used in the determination of the total pension liability was changed from 3.63% to 4.12%. Any change in the underlying High Quality 20 Year Tax Exempt G.O. Bond Rate will impact the blended discount rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the plan's net pension liability, calculated using a Single Discount Rate of 4.12%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher than the current rate:

	1% Lower (3.12%)	Current Discount Rate (4.12%)	1% Higher (5.12%)
Net pension liability	\$ 81,601,878	\$ 66,591,619	\$ 54,859,569

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended April 30, 2016 the City recognized pension expense of \$5,462,826. At April 30, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

<u>Deferred Amounts Related to Pensions</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Deferred Amounts to be Recognized in Pension Expense in Future Periods		
Differences between expected and actual experience	\$ 1,417,333	\$ -
Change of assumptions	9,148,589	6,932,786
Net difference between projected and actual earnings on pension plan investments	<u>1,246,524</u>	<u>177,423</u>
Total deferred amounts related to pensions	<u>\$ 11,812,446</u>	<u>\$ 7,110,209</u>

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

2. Police Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>April 30,</u>	<u>Net Deferred</u> <u>Outflows of</u> <u>Resources</u>
2018	\$ 1,268,438
2019	1,268,438
2020	1,268,435
2021	852,930
2022	43,996
Thereafter	<u>-</u>
Total	<u>\$ 4,702,237</u>

3. Firefighters' Pension Plan

Plan Description

The Firefighters' Pension Plan is a single-employer defined benefit pension plan that covers all sworn firefighter personnel. The defined benefits and employee and minimum employer contribution levels are governed by Illinois Compiled Statutes (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The City accounts for the Fund as a pension trust fund. The Fund is governed by a five-member Board of Trustees. Two members of the Board are appointed by the City's Mayor, one member is elected by pension beneficiaries and two members are elected by active firefighter employees.

The Plan is not included in the report of a public retirement system or another entity. Separate reports are issued for the Firefighters' Pension Plan and may be obtained by writing to the City of North Chicago at 1850 Lewis Avenue, North Chicago, Illinois 60064.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

3. **Firefighters' Pension Plan** (Continued)

Basis of Accounting

The accrual basis of accounting is utilized by a pension trust fund. Under this method, additions to net position are recorded when earned and deductions from net position are recorded when the time related liabilities/deferred inflows are incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Benefits Provided

The following is a summary of the Firefighters' Pension Plan as provided for in Illinois State Statutes.

The Firefighters' Pension Plan provides retirement benefits through two tiers of benefits as well as death and disability benefits. Covered employees hired before January 1, 2011 (Tier 1), attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit of ½ of the salary attached to the rank held on the last day of service, or for one year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.5 percent of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75 percent of such salary. Employees with at least eight years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit. The monthly benefit of a firefighter who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3 percent of the original pension and 3% compounded annually thereafter.

Covered employees hired on or after January 1, 2011 (Tier 2), attaining the age of 55 or older with 10 or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the firefighter during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Firefighters' salary for the pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3 percent compounded. The annual benefit shall be increased by 2.5 percent of such a salary for each additional year of service over 20 years up to 30 years to a maximum of 75 percent of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., ½ percent for each month under 55).

The monthly benefit of a Tier 2 firefighter shall be increased annually at age 60 on the January 1st after the firefighter retires, or the first anniversary of the pension starting date, whichever is later. Non-compounding increases occur annually, each January thereafter. The increase is the lesser of 3 percent or ½ of the change in the Consumer Price Index for the proceeding calendar year.

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

3. Firefighters' Pension Plan (Continued)

Plan Membership

As of April 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	29
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	32
Total	66

Contributions

Covered employees are required to contribute 9.46% of their base salary to the Firefighters' Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the plan and the administrative costs as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the City to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. The City has chosen to use the following parameters to fund its pension plan above and beyond the state minimum. For the year-ended April 30, 2017, the City's contribution was 33.01% of covered payroll.

Net Pension Liability

The City's firefighters' fund net pension liability was measured as of April 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation performed as of April 30, 2017, using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2017
Actuarial cost method	Entry age normal; Level % of pay
Asset valuation method	Market value

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

3. **Firefighters' Pension Plan** (Continued)

Actuarial Assumptions (Continued)

Assumptions	
Interest rate	7.00%
Discount rate	4.62%
Salary increases	2.89% - 11.13%
Projected increase in total payroll	3.50%
Inflation	2.50%

Mortality rates were based on an independent actuary assumption study for Illinois Firefighters 2016.

Single Discount Rate

A Single Discount Rate of 4.62% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

- a. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
- b. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.00%, the municipal bond rate is 3.82%, and the resulting single discount rate is 4.62%.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

3. Firefighters' Pension Plan (Continued)

Changes in Net Pension Liability

	Total Pension Liability (A)	Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Balances at April 30, 2016	\$ 40,372,024	\$ 8,754,184	\$ 31,617,840
Changes for the year:			
Service cost	987,334	-	987,334
Interest on the total pension liability	1,834,010	-	1,834,010
Changes of benefit terms	-	-	-
Difference between expected and actual experience of the total pension liability	1,058,782	-	1,058,782
Changes of assumptions*	(3,796,674)	-	(3,796,674)
Contributions - employer	-	788,096	(788,096)
Contributions - employees	-	227,875	(227,875)
Contributions - other	-	21,325	(21,325)
Net investment income (loss)	-	899,898	(899,898)
Benefit payment, including refunds of employee contributions	(1,349,682)	(1,349,682)	-
Administrative expense	-	(59,542)	59,542
Net changes	<u>(1,266,230)</u>	<u>527,970</u>	<u>(1,794,200)</u>
Balances at April 30, 2017	<u>\$ 39,105,794</u>	<u>\$ 9,282,154</u>	<u>\$ 29,823,640</u>

* The assumptions were changed from the prior year. The assumed rate on High Quality 20 Year Tax-Exempt G.O. Bonds was changed from 3.32% to 3.82% for the current year. The discount rate used in the determination of the total pension liability was changed from 4.28% to 4.62%. Any change in the underlying High Quality 20 Year Tax Exempt G.O. Bond Rate will impact the blended discount rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the plan's net pension liability, calculated using a Single Discount Rate of 4.62%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher than the current rate:

	1% Lower (3.62%)	Current Discount Rate (4.62%)	1% Higher (5.62%)
Net pension liability	<u>\$ 36,768,201</u>	<u>\$ 29,823,640</u>	<u>\$ 24,356,403</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

3. Firefighters' Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended April 30, 2017 the City recognized pension expense of \$2,132,926. At April 30, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

<u>Deferred Amounts Related to Pensions</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Deferred Amounts to be Recognized in Pension Expense in Future Periods		
Differences between expected and actual experience	\$ 1,128,434	\$ -
Change of assumptions	1,851,178	3,277,293
Net difference between projected and actual earnings on pension plan investments	<u>523,340</u>	<u>240,098</u>
Total deferred amounts related to pensions	<u>\$ 3,502,952</u>	<u>\$ 3,517,391</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended April 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2018	\$ 101,015
2019	101,015
2020	101,011
2021	(73,431)
2022	(13,408)
Thereafter	<u>(230,641)</u>
Total	<u>\$ (14,439)</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE I - PENSION LIABILITIES (Continued)

4. Summary of Pension Items

Below is a summary of the various pension items for governmental and business-type activities:

	<u>IMRF</u>	<u>Police</u>	<u>Firefighters'</u>	<u>Total</u>
Deferred outflows of resources:				
Employer contributions	\$ 136,407	\$ -	\$ -	\$ 136,407
Experience	49,364	1,417,333	1,128,434	2,595,131
Assumptions	9,889	9,148,589	1,851,178	11,009,656
Investments	<u>1,002,604</u>	<u>1,246,524</u>	<u>523,340</u>	<u>2,772,468</u>
	<u>\$ 1,198,264</u>	<u>\$ 11,812,446</u>	<u>\$ 3,502,952</u>	<u>\$ 16,513,662</u>
Net pension liability	<u>\$ 1,134,796</u>	<u>\$ 66,591,619</u>	<u>\$ 29,823,640</u>	<u>\$ 97,550,055</u>
Deferred inflows of resources:				
Experience	\$ 156,606	\$ -	\$ -	\$ 156,606
Assumptions	18,586	6,932,786	3,277,293	10,228,665
Investments	<u>-</u>	<u>177,423</u>	<u>240,098</u>	<u>417,521</u>
	<u>\$ 175,192</u>	<u>\$ 7,110,209</u>	<u>\$ 3,517,391</u>	<u>\$ 10,802,792</u>

NOTE J - OTHER POSTEMPLOYMENT BENEFITS

1. Plan Description

The City provides postemployment health care insurance benefits ("OPEB") for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by the City and can be amended by the City through its personnel manual and union contracts. The plan is an unfunded plan, and there is no separately issued report.

To be eligible for benefits under the plan, an employee must qualify for retirement under one of the City's retirement plans. Elected officials are eligible for benefits if they qualify for retirement through the Illinois Municipal Retirement Fund.

All health care benefits are provided through the City's self-insured health plan. The benefit levels are the same as those afforded to active employees. Benefits include general inpatient and outpatient medical services; mental, nervous, and substance abuse care; vision care; dental care; and prescriptions. Upon a retiree reaching Medicare eligible age, Medicare becomes the primary insurer and the City's plan becomes secondary.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE J - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

1. Plan Description (Continued)

As of July 2015, (most recent date available), membership in the Plan consisted of the following:

Retirees	22
Actives fully eligible to retire	16
Actives not fully eligible to retire	152
Total membership	190

2. Funding Policy

The City negotiates the contribution percentages between the City and employees through the union contracts and personnel policy. All retirees contribute 100% of the premium to the health insurance plan and the City contributes the remainder to cover the cost of providing the benefits to the retirees via the self-insurance plan (pay-as-you-go). Since the City is self-insured, this amount fluctuates on an annual basis. For the fiscal year ended April 30, 2017, estimated employer contributions are \$89,110. Active employees do not contribute to the plan until retirement.

3. Annual OPEB Cost and Net OPEB Obligation

The City had an actuarial valuation performed for the plan as of April 30, 2015 (most recent date available). The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities or funding excess over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the City's Health Insurance Plan for Retired Employees as of April 30, 2017.

	Amount
Annual Required Contribution (ARC)	\$ 96,140
Interest on net OPEB obligation	4,987
Adjustment to Annual Required Contribution	(4,156)
Annual OPEB cost	96,971
Contributions made	(89,110)
Increase in OPEB obligation	7,861
Net OPEB obligation at May 1, 2016	124,671
Net OPEB obligation at April 30, 2017	\$ 132,532

City of North Chicago, Illinois
 NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE J - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

4. Trend Information

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2017 are as follows:

<u>Trend Information - Other Postemployment Benefits</u>			
<u>Fiscal</u> <u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>of OPEB</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
04/30/2017*	\$ 96,971	91.89%	\$ 132,532
04/30/2016*	96,901	89.09%	124,671
04/30/2015	96,886	97.79%	114,101

* Annual OPEB cost estimated using ARC from most recent valuation information.

5. Funding Status and Funding Progress

As of April 30, 2015 (the most recent actuarial valuation date), the actuarial accrued liability for benefits was \$1,354,848, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) and the ratio of the unfunded actuarial accrued liability to the covered payroll were \$10,836,798 and 13%, respectively.

The projection of future benefit payments for an ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE J - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

6. Funding Policy and Actuarial Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Measurement date	May 1, 2014
Data collection date	July 1, 2015
Actuarial cost method	Entry age normal
Amortization period	Level dollar-open
Remaining amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions:	
Discount rate	4.00%
Salary rate increase	4.00%
Healthcare inflation rate	6.00% initial; 5.00% ultimate
Mortality, turnover, disability, retirement ages	Similar rates utilized for IMRF, Police and Fire Pension Funds
Percentage of active employees assumed to elect benefit	15%

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE K - OPERATING LEASE

The City entered into a vehicle lease agreement during 2017 with a term of 3 years requiring payment of approximately \$480 per month through February 2020. The City had a previous vehicle agreement with a term of 3 years with a payment requirement of approximately \$400 that expired during 2017. Total costs for these leases was approximately \$4,000 for the year ended April 30, 2017. Future lease payment is as follows:

Year Ended April 30,	Total
2018	\$ 5,767
2019	5,767
2020	<u>4,325</u>
Total	<u>\$ 15,859</u>

NOTE L - RESTRICTIONS BY ENABLING LEGISLATION

The government-wide statement of net position reports \$5,050,363 of net position restricted by enabling legislation which consists of the following:

Road maintenance (Motor Fuel Tax)	\$ 1,759,822
Drug law enforcement	190,323
Emergency phone	357,998
Downtown Tax Increment Financing Redevelopment Project Area Debt Series 2014A	1,885,565
Downtown Tax Increment Financing Redevelopment Project Area Debt Series 2007A	149,400
Downtown Tax Increment Financing Redevelopment Project Area Debt Series 2007B	117,749
Grant Place Retail Center Debt Service 2007C	<u>589,506</u>
Total government-wide net position restricted by enabling legislation	<u>\$ 5,050,363</u>

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE M - RISK MANAGEMENT - SELF-INSURED DENTAL AND VISION

The City has established a self-insurance fund (as an internal service fund). Each participating operating fund of the City makes payments to the self-insurance fund for amounts which are necessary to fund claims. Such payments are displayed on the financial statements as revenues and expenditures/expenses (quasi-external transfers).

The City self-insures dental and vision insurance claims up to \$1,000 and \$350 per covered employee per year, respectively. The City accounts for this health insurance activity in the separate Dental and Vision Fund. As of the date of this report, the City has accrued \$18,540 in the Dental and Vision Fund relating to the City's estimate of losses resulting from these claims.

Balances of claims liabilities during the past two years are as follows:

	2017	2016
Unpaid claims, beginning of fiscal year	\$ 15,251	\$ 12,803
Incurred claims including claims incurred but not yet reported (IBNRs)	176,345	155,883
Claim payments	(173,056)	(153,435)
Unpaid claims, end of fiscal year	\$ 18,540	\$ 15,251

NOTE N - OTHER COMMITMENTS AND CONTINGENCIES

1. Litigation

There are several lawsuits that the City settled after April 30, 2017. The City has accrued \$250,000 (the liability insurance deductible) in the General Fund related to these settlements. The amount is included in other liabilities in the statement of net position (deficit) and the governmental funds balance sheet. Additionally, there are several pending lawsuits in which the City is involved. Management estimates that the potential unsettled claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City although the outcome of these matters is currently unknown.

2. Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City of North Chicago, Illinois
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2017

NOTE N - OTHER COMMITMENTS AND CONTINGENCIES

3. Commitment

The City has entered into an agreement with a non-for-profit in which the City provides \$7,500 quarterly through September 2020 for the maintenance of certain property. The City's expense related to this agreement was \$30,000 for the year ended April 30, 2017.

Future commitments for the years ended April 30 are as follows:

	<u>Amount</u>
2018	\$ 30,000
2019	30,000
2020	15,000
	<u>\$ 75,000</u>

NOTE O - PRIOR PERIOD ADJUSTMENTS

During fiscal year 2017, the City engaged a third party to perform an inventory of the City's capital assets.

1. Governmental Activities

The completion of the governmental activities inventory resulted in an increase in the cost of capital assets of \$1,841,476, an increase in accumulated depreciation of capital assets of \$689,050, and a net decrease in net deficit of \$1,152,426 at May 1, 2016. This adjustment affects the government-wide financial statements only and has no effect on the fund financial statements.

2. Business-Type Activities

The completion of the business-type activities inventory resulted in an increase in the cost of capital assets of \$1,128,624, an increase in accumulated depreciation of capital assets of \$666,056, and a net increase in net position of \$462,568 at May 1, 2016.

NOTE P - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 9, 2018, the date these financial statements were available to be issued. Management has determined that no events or transactions, other than as disclosed below, have occurred subsequent to the statement of net position/balance sheet date that require disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

City of North Chicago, Illinois

Multiyear Schedule of Changes in Net Pension Liability and Related Ratios

Most Recent Calendar Year

Illinois Municipal Retirement Fund

April 30, 2017

Illinois Municipal Retirement Fund

Calendar year ended December 31,	2016	2015
Total pension liability		
Service cost	\$ 477,467	\$ 496,614
Interest on the total pension liability	1,686,673	1,595,969
Difference between expected and actual experience	(234,768)	135,340
Assumption changes	(27,863)	27,111
Benefit payments and refunds	(1,031,753)	(980,356)
Net change in total pension liability	869,756	1,274,678
Total pension liability, beginning	22,796,136	21,521,458
Total pension liability, ending	\$ 23,665,892	\$ 22,796,136
Plan fiduciary net position		
Contributions, employer	\$ 421,048	\$ 421,862
Contributions, employee	210,159	266,754
Net investment income	1,474,443	109,525
Benefit payments, including refunds of employee contributions	(1,031,753)	(980,356)
Other	76,347	(487,761)
Net change in plan fiduciary net position	1,150,244	(669,976)
Plan fiduciary net position, beginning	21,380,852	22,050,828
Plan fiduciary net position, ending	\$ 22,531,096	\$ 21,380,852
Net pension liability	\$ 1,134,796	\$ 1,415,284
Plan fiduciary net position as a percentage of the total pension liability	95.20 %	93.79 %
Covered Valuation Payroll	\$ 4,669,874	\$ 4,627,821
Net pension liability as a percentage of covered valuation payroll	24.30 %	30.58 %

Note: The City implemented GASB 68 for the Illinois Municipal Retirement Fund beginning with its fiscal year ended April 30, 2016; therefore 10 years of information is not available.

City of North Chicago, Illinois

Multiyear Schedule of Contributions

Illinois Municipal Retirement Fund

April 30, 2017

Illinois Municipal Retirement Fund

<u>Fiscal</u> <u>Year</u> <u>December 31,</u>	<u>Actuarially</u> <u>Determined</u> <u>Contribution</u>	<u>Actual</u> <u>Contribution</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Covered</u> <u>Valuation</u> <u>Payroll</u>	<u>Actual Contribution</u> <u>as a % of</u> <u>Covered Valuation Payroll</u>
2016	\$ 411,883	* \$ 421,048	\$ (9,165)	\$ 4,669,874	9.02 %
2015	424,834	421,862	2,972	4,627,821	9.12

* Estimated based on contribution rate of 8.82% and covered valuation payroll of \$4,669,874 (most recent information available).

Note: The City implemented GASB 68 for the Illinois Municipal Retirement Fund beginning with its fiscal year ended April 30, 2016; therefore 10 years of information is not available.

City of North Chicago, Illinois

Multiyear Schedule of Contributions

Illinois Municipal Retirement Fund

April 30, 2017

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 each year, which are 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine 2016 Contribution Rates:

Actuarial Cost Method	Aggregate Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	Non-Taxing bodies: 10-year rolling period Taxing bodies (Regular, SLEP and ECO groups): 27-year closed period until remaining period reaches 15 years (then 15-year rolling period). Early Retirement Incentive Plan liabilities: a period up to 10 years selected by the Employer upon adoption of ERI. SLEP supplemental liabilities attributable to Public Act 94-712 were financed over 22 years for most employers (two employers were financed over 31 years).
Asset Valuation Method	5-Year Smoothed Market Value; 20% corridor
Wage growth	3.50%
Price Inflation	2.75% - approximate; no explicit price inflation assumption used in this valuation
Salary Increases	3.75% to 14.50%, including inflation
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study of the period 2011 - 2013.
Mortality	For non-disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF specific rates were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience. For disabled retirees, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF specific rates were developed from the RP-2014 Disabled Retirees Mortality Table applying the same adjustment that were applied for non-disabled lives. For active members, an IMRF specific mortality table was used with fully generational projection scale MP-2014 (base year 2012). The IMRF specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.

Other Information

Notes There were no benefit changes during the year.

City of North Chicago, Illinois

Multiyear Schedule of Changes in Net Pension Liability and Related Ratios

Police Pension Fund

April 30, 2017

Police Pension Fund

	2017	2016	2015
Total pension liability			
Service cost	\$ 2,077,062	\$ 2,102,749	\$ 1,964,836
Interest on the total pension liability	3,495,011	2,486,868	2,616,283
Differences between expected and actual experience	882,242	980,066	-
Changes in assumptions	(8,324,912)	13,134,903	-
Benefit payments and refunds	(2,437,557)	(2,328,436)	(2,286,321)
Net change in total pension liability	(4,308,154)	16,376,150	2,294,798
Total pension liability, beginning	86,049,134	69,672,984	67,378,186
Total pension liability, ending	\$ 81,740,980	\$ 86,049,134	\$ 69,672,984
Plan fiduciary net position			
Contributions, employer	\$ 1,245,337	\$ 1,119,364	\$ 871,239
Contributions, other	4,502	-	-
Contributions, employee	422,719	474,366	449,402
Net investment income (loss)	1,225,102	(951,250)	854,259
Benefit payments and refunds	(2,437,558)	(2,328,436)	(2,286,321)
Administrative expense	(52,857)	(58,333)	(54,681)
Net change in plan fiduciary net position	407,245	(1,744,289)	(166,102)
Plan fiduciary net position, beginning	14,742,116	16,486,405	16,652,507
Plan fiduciary net position, ending	\$ 15,149,361	\$ 14,742,116	\$ 16,486,405
Net pension liability	\$ 66,591,619	\$ 71,307,018	\$ 53,186,579
Plan fiduciary net position as a percentage of the total pension liability	18.53 %	17.13 %	23.66 %
Covered employee payroll*	\$ 4,204,648	\$ 4,313,455	\$ 4,321,523
Net pension liability as a percentage of covered valuation payroll	1,583.76 %	1,653.13 %	1,230.74 %

* Covered employee payroll shown is the pensionable pay for the fiscal year for all fund members

Note: The Police Pension Fund implemented GASB 67 beginning with its fiscal year ended April 30, 2015 and the City implemented GASB 68 beginning with its fiscal year ended April 30, 2016; therefore, 10 years of information is not available.

City of North Chicago, Illinois

Multiyear Schedule of Contributions

Police Pension Fund

April 30, 2017

Police Pension Fund

Fiscal Year April 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll	Actual Contribution as a % of Covered Valuation Payroll
2017	\$ 2,610,816	\$ 1,245,337	\$ 1,365,479	\$ 4,204,648	29.62 %
2016	2,350,293	1,119,364	1,230,929	4,313,455	25.95
2015	2,252,422	871,239	1,381,183	4,321,523	20.16

Note: The Police Pension Fund implemented GASB 67 beginning with its fiscal year ended April 30, 2015 and the City implemented GASB 68 beginning with its fiscal year ended April 30, 2016; therefore, 10 years of information is not available.

Notes to the Required Supplementary Information:

Actuarial Cost Method	Entry Age Normal (Level % of Pay)
Amortization Method	Level Dollar (Closed)
Amortization Target	90% Funded as of 2040
Asset Valuation Method	5-Year Smoothed Market Value
Inflation	3.00%
Salary Increases	4.50% - 8.00%
Investment Rate of Return	7.00%
Retirement Age	See the Notes to the Financial Statements
Mortality	Mortality rates are based on an independent actuary assumption study for Illinois Police 2016.

City of North Chicago, Illinois

Multiyear Schedule of Changes in Net Pension Liability and Related Ratios

Firefighters' Pension Fund

April 30, 2017

Firefighters' Pension Fund

	2017	2016	2015
Total pension liability			
Service cost	\$ 987,334	\$ 986,970	\$ 1,075,887
Interest on the total pension liability	1,834,010	1,529,797	1,454,398
Differences between expected and actual experience	1,058,782	289,492	-
Changes in assumptions	(3,796,674)	2,498,444	-
Benefit payments and refunds	(1,349,682)	(1,351,222)	(1,316,005)
Net change in total pension liability	(1,266,230)	3,953,481	1,214,280
Total pension liability, beginning	40,372,024	36,418,543	35,204,263
Total pension liability, ending	\$ 39,105,794	\$ 40,372,024	\$ 36,418,543
Plan fiduciary net position			
Contributions, employer	\$ 788,096	\$ 702,086	\$ 612,133
Contributions, employee	21,325	-	-
Contributions, employee	227,874	238,849	221,905
Net investment income (loss)	899,899	(227,014)	580,526
Benefit payments and refunds	(1,349,682)	(1,351,222)	(1,316,005)
Administrative expense	(59,542)	(62,227)	(47,171)
Net change in plan fiduciary net position	527,970	(699,528)	51,388
Plan fiduciary net position, beginning	8,754,184	9,453,712	9,402,324
Plan fiduciary net position, ending	\$ 9,282,154	\$ 8,754,184	\$ 9,453,712
Net pension liability	\$ 29,823,640	\$ 31,617,840	\$ 26,964,831
Plan fiduciary net position as a percentage of the total pension liability	23.74 %	21.68 %	25.96 %
Covered employee payroll*	\$ 2,387,259	\$ 2,356,214	\$ 2,267,983
Net pension liability as a percentage of covered valuation payroll	1,249.28 %	1,341.89 %	1,188.93 %

* Covered employee payroll shown is the pensionable pay for the fiscal year for all fund members

Note: The Firefighters' Pension Fund implemented GASB 67 beginning with its fiscal year ended April 30, 2015 and the City implemented GASB 68 beginning with its fiscal year ended April 30, 2016; therefore, 10 years of information is not available.

City of North Chicago, Illinois

Multiyear Schedule of Contributions

Firefighters' Pension Fund

April 30, 2017

Firefighters' Pension Fund

Fiscal Year <u>April 30,</u>	Actuarially Determined <u>Contribution</u>	Actual <u>Contribution</u>	Contribution Deficiency (Excess)	Covered Valuation Payroll	Actual Contribution as a % of <u>Covered Valuation Payroll</u>
2017	\$ 1,179,755	\$ 788,096	\$ 391,659	\$ 2,387,259	33.01 %
2016	1,174,104	702,086	472,018	2,356,214	29.80
2015	1,024,176	612,133	412,043	2,267,983	26.99

Note: The Firefighters' Pension Fund implemented GASB 67 beginning with its fiscal year ended April 30, 2015 and the City implemented GASB 68 beginning with its fiscal year ended April 30, 2016; therefore, 10 years of information is not available.

Notes to the Required Supplementary Information:

Actuarial Cost Method	Entry Age Normal (Level % of Pay)
Amortization Method	Level % Pay (Closed)
Amortization Target	100% Funded as of 2040
Asset Valuation Method	5-Year Smoothed Market Value
Inflation	3.00%
Salary Increases	5.00%
Investment Rate of Return	7.00%
Retirement Age	See the Notes to the Financial Statements
Mortality	Mortality rates are based on an independent actuary assumption study for Illinois Firefighters 2016.

City of North Chicago, Illinois
 Multiyear Schedule of Investment Returns
 Police Pension Fund and Firefighters' Pension Fund
April 30, 2017

<u>Fiscal Year</u>	<u>Annual Money- Weighted Rate of Return, Net of Investment Expense</u>
<i><u>Police Pension Fund</u></i>	
2017	8.53 %
2016	(6.79)
2015	4.78
<i><u>Firefighters' Pension Fund</u></i>	
2017	7.96 %
2016	(6.07)
2015	6.05

Note: The Police and Firefighters' Pension Funds implemented GASB 67 beginning with its fiscal year ended April 30, 2015 and the City implemented GASB 68 beginning with its fiscal year ended April 30, 2016; therefore, 10 years of information is not available.

City of North Chicago, Illinois

Other Postemployment Benefits

Schedule of Funding Progress

Required Supplementary Information

April 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
04/30/2017 ¹	\$ -	\$ 1,354,848	\$ 1,354,848	0.00 %
04/30/2016 ¹	-	1,354,848	1,354,848	0.00
04/30/2015	-	1,354,848	1,354,848	0.00

No valuation was performed for fiscal years ended April 30, 2016 or April 30, 2014.

¹ Results from last available actuarial study.

City of North Chicago, Illinois

General Fund - Budgetary Basis

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Revenues			
Property taxes	\$ 6,654,715	\$ 6,654,781	\$ 66
Taxes - other	4,372,000	4,837,711	465,711
Licenses and permits	706,300	880,057	173,757
Intergovernmental	6,143,000	5,626,645	(516,355)
Grants	500,000	677,146	177,146
Fines and fees	2,199,970	2,529,737	329,767
Interest	2,500	2,639	139
Miscellaneous	158,450	209,983	51,533
	<u>20,736,935</u>	<u>21,418,699</u>	<u>681,764</u>
Total revenues			
Expenditures			
General government			
Mayor's office	486,136	438,476	47,660
City Clerk's office	191,490	183,576	7,914
Legislative	198,070	187,575	10,495
City Treasurer	33,910	25,621	8,289
Comptroller	797,315	825,229	(27,914)
Information technology	389,200	345,599	43,601
Human resources	250,315	233,379	16,936
	<u>2,346,436</u>	<u>2,239,455</u>	<u>106,981</u>
Total general government			
Administration services	3,605,000	4,065,546	(460,546)
	<u>1,742,230</u>	<u>1,377,745</u>	<u>364,485</u>
Highway and streets			

(Continued)

City of North Chicago, Illinois

General Fund - Budgetary Basis

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Expenditures (continued)			
Public safety			
Police department	\$ 9,616,255	\$ 9,944,625	\$ (328,370)
Fire department	<u>4,395,440</u>	<u>4,207,109</u>	<u>188,331</u>
Total public safety	<u>14,011,695</u>	<u>14,151,734</u>	<u>(140,039)</u>
Economic development	<u>1,660,380</u>	<u>1,880,571</u>	<u>(220,191)</u>
Total expenditures	<u>23,365,741</u>	<u>23,715,051</u>	<u>(349,310)</u>
Deficiency of revenues over expenditures	<u>(2,628,806)</u>	<u>(2,296,352)</u>	<u>332,454</u>
Other financing sources			
Proceeds from long-term debt	-	332,735	(332,735)
Transfers in	<u>2,175,000</u>	<u>2,175,000</u>	<u>-</u>
Total other financing sources	<u>2,175,000</u>	<u>2,507,735</u>	<u>(332,735)</u>
Net change in fund balance	\$ <u>(453,806)</u>	211,383	\$ <u>665,189</u>
Fund balance, beginning of year		<u>12,383,705</u>	
Fund balance, end of year		\$ <u>12,595,088</u>	

(Concluded)

City of North Chicago, Illinois

Sheridan Crossing Tax Increment Financing Redevelopment Project Area
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Expenditures			
General government			
Other professional services	\$ 5,000	\$ 276,284	\$ (271,284)
Impairment loss (See Note A-17)	<u>-</u>	<u>2,590,809</u>	<u>(2,590,809)</u>
Total expenditures	<u>5,000</u>	<u>2,867,093</u>	<u>(2,862,093)</u>
Deficiency of revenues over expenditures	<u>(5,000)</u>	<u>(2,867,093)</u>	<u>(2,862,093)</u>
Other financing sources			
Transfers in	<u>5,000</u>	<u>30,000</u>	<u>25,000</u>
Total other financing sources	<u>5,000</u>	<u>30,000</u>	<u>25,000</u>
Net change in fund balance	\$ <u><u>-</u></u>	(2,837,093)	\$ <u><u>(2,837,093)</u></u>
Fund balance, beginning of year (See Note A-4)		<u>5,890,809</u>	
Fund balance, end of year		\$ <u><u>3,053,716</u></u>	

City of North Chicago, Illinois
Notes to the Required Supplementary Information
April 30, 2017

NOTE A - GENERAL FUND - BUDGETARY BASIS PRESENTATION

The General Fund presentation of expenditures is presented on a budgetary basis where certain debt service and capital outlay expenditures are included in the department in which the expenditures are budgeted. The Statement of Activities presents expenses in accordance with accounting principles generally accepted in the United States of America.

NOTE B - BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to May 15 of each year, the Comptroller submits to the City Council a statement of estimated receipts and disbursements for the fiscal year commencing May 1. Upon review by the City Council, an appropriation ordinance is prepared.

Public hearings are conducted to obtain taxpayer comments.

The legal authorization for expenditures is set by the appropriation ordinance.

Budget amounts are used in the various budget to actual schedules for comparative purposes.

Prior to July 31, the appropriation is legally enacted through passage of an ordinance.

The City prepares its appropriation ordinance in accordance with generally accepted accounting principles.

The level of control (level of which expenditures may not exceed budget/appropriations) is at the fund level. Budget/appropriations lapse at year-end.

All funds also have legally adopted budgets. There were no amendments made to the fiscal year budget.

City of North Chicago, Illinois
Notes to the Required Supplementary Information
April 30, 2017

NOTE B - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Expenditures (including transfers out) exceeded budgets in the following funds for the year ended April 30, 2017:

Fund	Original and Final Budget	Actual	Excess of Expenditures Over Budget
Sheridan Crossing Tax Increment Financing			
Redevelopment Project Area Fund	\$ 5,000	\$ 2,867,093	\$ 2,862,093
Motor Fuel Tax	1,469,000	1,602,419	133,419
Seized Drug Money	-	17,159	17,159
Delta Institute	-	6,832	6,832
Dental and Vision	136,000	157,805	21,805
Retiree's Insurance Premiums	163,400	167,851	4,451
Downtown Tax Increment Financing			
Redevelopment Project Area Fund	55,000	103,137	48,137
Grant Place Operating Fund	157,400	166,123	8,723

For the year ended April 30, 2017, the City received an valuation appraisal and recognized an impairment loss of \$2,590,809 and \$103,137 on property held for resale within the Sheridan Crossing Tax Increment Financing Redevelopment Project Area Fund and the Downtown Tax Increment Financing Redevelopment Project Area Fund, respectively. The impairment losses were not budgeted for and as a result, they are the primary reason for the significant budget variances presented above, in those funds.

SUPPLEMENTARY FINANCIAL INFORMATION

GENERAL FUND

City of North Chicago, Illinois

General Fund - Budgetary Basis

Schedule of Revenues and Other Financing Sources - Budget and Actual

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Property taxes			
Real estate taxes	\$ 4,599,560	\$ 4,621,348	\$ 21,788
Real estate taxes - Firefighters' and Police pensions	2,055,155	2,033,433	(21,722)
Total property taxes	6,654,715	6,654,781	66
Taxes - other			
Hotel/motel tax	170,000	229,409	59,409
Real estate transfer tax	75,000	282,931	207,931
Food and beverage tax	300,000	271,301	(28,699)
Municipal motor fuel tax	750,000	814,276	64,276
Self storage facility tax	35,000	37,052	2,052
Utility tax	1,600,000	1,542,607	(57,393)
Simplified telecommunications tax	640,000	609,870	(30,130)
Automobile Rental	11,000	11,258	258
Local use tax	600,000	803,158	203,158
Road and bridge tax	40,000	34,114	(5,886)
Video gaming tax	151,000	201,735	50,735
Total taxes - other	4,372,000	4,837,711	465,711
Total property taxes and taxes - other	11,026,715	11,492,492	465,777
Licenses and permits			
Contractors license	16,000	22,359	6,359
Pet tag license	800	622	(178)
Liquor license	50,000	34,550	(15,450)
Taxi class B license	25,000	26,049	1,049
Business license	120,000	117,879	(2,121)
Landlord license	25,000	25,930	930
Prop. Vacancies registration	28,000	78,000	50,000

(Continued)

City of North Chicago, Illinois

General Fund - Budgetary Basis

Schedule of Revenues and Other Financing Sources - Budget and Actual (Continued)

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>
Licenses and permits (continued)			
Building permits	\$ 275,000	\$ 390,049	\$ 115,049
Rezoning variance permits	1,000	-	(1,000)
Miscellaneous permits	10,000	11,655	1,655
Vehicle stickers			
Truck	15,500	11,210	(4,290)
Occupancy permits	75,000	105,521	30,521
Hazardous materials permits	40,000	42,783	2,783
Taxi A drivers license	25,000	13,450	(11,550)
	<u>706,300</u>	<u>880,057</u>	<u>173,757</u>
Intergovernmental			
State income tax	3,150,000	2,588,200	(561,800)
Sales tax	2,700,000	2,686,883	(13,117)
Replacement tax - state	290,000	348,562	58,562
North Chicago Housing Authority	3,000	3,000	-
	<u>6,143,000</u>	<u>5,626,645</u>	<u>(516,355)</u>
Grant proceeds	<u>500,000</u>	<u>677,146</u>	<u>177,146</u>
Fines and fees			
Lien fees	20,000	48,066	28,066
Animal fines and fees	2,500	2,521	21
Photocopies	3,000	3,858	858
Code books and maps	1,000	-	(1,000)
Fire service charges			
Ambulance fees	370,000	405,651	35,651

(Continued)

City of North Chicago, Illinois

General Fund - Budgetary Basis

Schedule of Revenues and Other Financing Sources - Budget and Actual (Continued)

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
	<u> </u>	<u> </u>	<u> </u>
Fines and fees (continued)			
Policing charges			
Police fines	\$ -	\$ 3,506	\$ 3,506
Parking fines	20,000	29,050	9,050
Redflex fines	305,000	371,196	66,196
Adjudication fines	180,000	169,730	(10,270)
Adjudication court costs	7,000	3,600	(3,400)
Police services fees	884,470	1,068,733	184,263
Alarm service fees	16,000	27,980	11,980
Magistrate	140,000	121,493	(18,507)
Cable franchise fees	160,000	158,498	(1,502)
Railroad parking lot pass fees	16,000	10,193	(5,807)
Community day fees	75,000	105,662	30,662
	<u>2,199,970</u>	<u>2,529,737</u>	<u>329,767</u>
Total fines and fees			
Interest	<u>2,500</u>	<u>2,639</u>	<u>139</u>
Miscellaneous			
Cable land use lease	100,000	103,114	3,114
Miscellaneous	42,500	67,309	24,809
NSF check fee	-	910	910
Worker's compensation reimbursements	-	121	121
Train station lease	2,700	450	(2,250)
Rental income	13,250	12,485	(765)
Sale of city property	-	25,594	25,594
	<u>158,450</u>	<u>209,983</u>	<u>51,533</u>
Total miscellaneous			
Total revenues	<u>20,736,935</u>	<u>21,418,699</u>	<u>681,764</u>

(Continued)

City of North Chicago, Illinois

General Fund - Budgetary Basis

Schedule of Revenues and Other Financing Sources - Budget and Actual (Continued)

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
	<u> </u>	<u> </u>	<u> </u>
Other financing sources			
Proceeds from long-term debt	\$ -	\$ 332,735	\$ 332,735
Transfer in from Water Fund	<u>2,175,000</u>	<u>2,175,000</u>	<u>-</u>
Total other financing sources	<u>2,175,000</u>	<u>2,507,735</u>	<u>332,735</u>
Total revenues and other financing sources	<u>\$ 22,911,935</u>	<u>\$ 23,926,434</u>	<u>\$ 1,014,499</u>

(Concluded)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government			
Mayor's office			
Salaries and wages			
Full-time salaries and wages	\$ 284,115	\$ 291,121	\$ (7,006)
Part-time salaries and wages	12,500	6,679	5,821
Overtime allowances	4,500	720	3,780
Comptime used	-	2,893	(2,893)
Car allowances	-	314	(314)
Total salaries and wages	<u>301,115</u>	<u>301,727</u>	<u>(612)</u>
Fringe benefits			
IMRF match	26,000	26,637	(637)
Employer's health insurance	26,650	19,498	7,152
Employer's dental and vision insurance	3,000	1,440	1,560
Social security match	18,670	18,035	635
Medicare match	4,370	4,217	153
Life insurance premiums	500	228	272
Total fringe benefits	<u>79,190</u>	<u>70,055</u>	<u>9,135</u>
Contractual services			
Maintenance - vehicles	1,500	1,028	472
Telephone	500	950	(450)
Travel and training	20,000	20,633	(633)
Public relations	10,000	1,494	8,506
Postage	500	-	500
Printing and publishing	500	15	485
Other professional services	20,000	3,262	16,738
Dues and memberships	19,000	10,183	8,817
Total contractual services	<u>72,000</u>	<u>37,565</u>	<u>34,435</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government (continued)			
Mayor's office (continued)			
Commodities			
Office supplies	\$ 4,000	\$ 2,982	\$ 1,018
Gasoline and oil	3,000	1,313	1,687
Publications	1,500	1,149	351
Miscellaneous expenses	15,000	20,230	(5,230)
Equipment	3,000	-	3,000
Mayor's expense account	2,500	-	2,500
Total commodities	<u>29,000</u>	<u>25,674</u>	<u>3,326</u>
Debt service			
Loan principal and interest	<u>4,831</u>	<u>3,455</u>	<u>1,376</u>
Total debt service	<u>4,831</u>	<u>3,455</u>	<u>1,376</u>
Total Mayor's office	<u>486,136</u>	<u>438,476</u>	<u>47,660</u>
City Clerk's office			
Salaries and wages			
Full-time salaries and wages	128,030	129,388	(1,358)
Gas allowance	-	113	(113)
Total salaries and wages	<u>128,030</u>	<u>129,501</u>	<u>(1,471)</u>
Fringe benefits			
IMRF match	11,270	11,668	(398)
Sick leave sell back	-	1,874	(1,874)
Employer's health insurance	13,865	13,555	310
Employer's dental and vision insurance	1,400	1,303	97
Social security match	7,940	7,745	195
Medicare match	1,860	1,811	49
Life insurance premiums	225	225	-
Total fringe benefits	<u>36,560</u>	<u>38,181</u>	<u>(1,621)</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government (continued)			
City Clerk's office (continued)			
Contractual services			
Maintenance - equipment	\$ 1,500	\$ 850	\$ 650
Travel and training	3,000	1,214	1,786
Postage	200	94	106
Printing and publishing	6,000	7,948	(1,948)
Dues and memberships	1,200	1,182	18
Other professional service	5,000	-	5,000
Equipment	3,000	-	3,000
Total contractual services	<u>19,900</u>	<u>11,288</u>	<u>8,612</u>
Commodities			
Office supplies	2,000	3,003	(1,003)
Gasoline and oil	2,000	1,045	955
Publications	1,000	-	1,000
Miscellaneous expenses	2,000	558	1,442
Total commodities	<u>7,000</u>	<u>4,606</u>	<u>2,394</u>
Total City Clerk's office	<u>191,490</u>	<u>183,576</u>	<u>7,914</u>
Legislative			
Salaries and wages			
Part-time salaries and wages	65,290	68,108	(2,818)
Total salaries and wages	<u>65,290</u>	<u>68,108</u>	<u>(2,818)</u>
Fringe benefits			
IMRF match	4,930	2,129	2,801
Employer's health insurance	44,900	41,315	3,585
Employer's dental and vision insurance	3,300	3,056	244
Social security match	4,050	3,639	411
Medicare match	950	852	98
Life insurance premiums	800	638	162
Total fringe benefits	<u>58,930</u>	<u>51,629</u>	<u>7,301</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government (continued)			
Legislative (continued)			
Contractual services			
Travel and training	\$ 22,000	\$ 37,482	\$ (15,482)
Postage	1,000	-	1,000
Printing and publishing	500	578	(78)
Dues and memberships	4,350	5,754	(1,404)
Boards and commissions	15,000	7,182	7,818
Other professional service	10,000	5,159	4,841
Total contractual services	<u>52,850</u>	<u>56,155</u>	<u>(3,305)</u>
Commodities			
Office supplies	2,500	1,855	645
Gasoline and oil	1,000	-	1,000
Miscellaneous expenses	17,500	9,828	7,672
Total commodities	<u>21,000</u>	<u>11,683</u>	<u>9,317</u>
Total legislative	<u>198,070</u>	<u>187,575</u>	<u>10,495</u>
City Treasurer			
Salaries and wages			
Part-time salaries and wages	15,000	15,000	-
Gas allowance	200	94	106
	<u>15,200</u>	<u>15,094</u>	<u>106</u>
Fringe benefits			
IMRF match	1,340	1,331	9
Employer's dental and vision insurance	900	853	47
Social security match	940	936	4
Medicare match	220	219	1
Life insurance premiums	110	104	6
Total fringe benefits	<u>3,510</u>	<u>3,443</u>	<u>67</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government (continued)			
City Treasurer (continued)			
Contractual services			
Travel and training	\$ 6,200	\$ 2,709	\$ 3,491
Printing and publishing	2,000	2,837	(837)
Dues and memberships	1,500	482	1,018
Total contractual services	<u>9,700</u>	<u>6,028</u>	<u>3,672</u>
Commodities			
Office supplies	2,500	78	2,422
Gasoline and oil	1,500	478	1,022
Miscellaneous expenses	1,500	500	1,000
Total commodities	<u>5,500</u>	<u>1,056</u>	<u>4,444</u>
Total City Treasurer	<u>33,910</u>	<u>25,621</u>	<u>8,289</u>
Comptroller			
Salaries and wages			
Full-time salaries and wages	408,900	391,924	16,976
Holiday taken	-	18,047	(18,047)
Comptime used	-	7,368	(7,368)
Overtime allowances	15,000	22,566	(7,566)
Total salaries and wages	<u>423,900</u>	<u>439,905</u>	<u>(16,005)</u>
Fringe benefits			
IMRF match	37,345	39,129	(1,784)
Employer's health insurance	74,220	76,298	(2,078)
Employer's dental and vision insurance	5,070	5,237	(167)
Social security match	26,280	25,514	766
Medicare match	6,150	5,967	183
Life insurance premiums	770	4,366	(3,596)
Total fringe benefits	<u>149,835</u>	<u>156,511</u>	<u>(6,676)</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government (continued)			
Comptroller (continued)			
Contractual services			
Maintenance - equipment	\$ 1,500	\$ 5,926	\$ (4,426)
Telephone	700	-	700
Travel and training	7,500	573	6,927
Postage	150	71	79
Printing and publishing	10,000	5,123	4,877
Other professional services	189,280	204,654	(15,374)
Dues and memberships	1,200	975	225
Total contractual services	<u>210,330</u>	<u>217,322</u>	<u>(6,992)</u>
Commodities			
Office supplies	12,000	10,047	1,953
Publications	250	-	250
Miscellaneous expenses	1,000	1,444	(444)
Total commodities	<u>13,250</u>	<u>11,491</u>	<u>1,759</u>
Total Comptroller	<u>797,315</u>	<u>825,229</u>	<u>(27,914)</u>
Information technology			
Contractual services			
Maintenance - equipment	95,500	77,025	18,475
Telephone	1,800	5,128	(3,328)
Travel and training	10,000	821	9,179
Other professional services	227,900	201,855	26,045
Total contractual services	<u>335,200</u>	<u>284,829</u>	<u>50,371</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government (continued)			
Information technology (continued)			
Commodities			
Operating supplies	\$ 24,000	\$ 6,636	\$ 17,364
Total commodities	<u>24,000</u>	<u>6,636</u>	<u>17,364</u>
Capital Outlay			
Equipment	30,000	29,036	964
Capital improvement	-	25,098	(25,098)
Total capital outlay	<u>30,000</u>	<u>54,134</u>	<u>(24,134)</u>
Total information technology	<u>389,200</u>	<u>345,599</u>	<u>43,601</u>
Human resources			
Salaries and wages			
Full-time salaries and wages	144,980	146,743	(1,763)
Part-time salaries and wages	5,000	-	5,000
Total salaries and wages	<u>149,980</u>	<u>146,743</u>	<u>3,237</u>
Fringe benefits			
IMRF match	12,760	12,207	553
Employer's health insurance	7,520	20,443	(12,923)
Employer's dental and vision insurance	1,840	1,106	734
Social security match	9,300	8,767	533
Medicare match	2,180	2,050	130
Life insurance premiums	240	260	(20)
Total fringe benefits	<u>33,840</u>	<u>44,833</u>	<u>(10,993)</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
General government (continued)			
Human resources (continued)			
Contractual services			
Telephone	\$ 1,100	\$ 777	\$ 323
Travel and training	5,000	4,796	204
In-house training	12,000	9,052	2,948
Postage	1,000	26	974
Printing and publishing	2,500	259	2,241
Other professional services	1,195	3,670	(2,475)
Dues and memberships	600	319	281
Total contractual services	<u>23,395</u>	<u>18,899</u>	<u>4,496</u>
Commodities			
Office supplies	4,000	1,982	2,018
Publications	600	-	600
Advertising-all departments	5,000	16,810	(11,810)
Employee recognition	4,500	2,890	1,610
Public relations	500	99	401
Safety incentives	1,000	-	1,000
Miscellaneous expenses	2,500	1,123	1,377
Total commodities	<u>18,100</u>	<u>22,904</u>	<u>(4,804)</u>
Capital Outlay			
Equipment	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total human resources	<u>250,315</u>	<u>233,379</u>	<u>16,936</u>
Total general government	<u>2,346,436</u>	<u>2,239,455</u>	<u>106,981</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Administration services			
Contractual services			
Unemployment insurance	\$ 50,000	\$ 4,137	\$ 45,863
Maintenance of equipment	52,000	81,125	(29,125)
Workers' compensation	110,000	-	110,000
Workers' compensation deductible	250,000	555,565	(305,565)
Liability insurance	516,800	554,011	(37,211)
Liability deductibility	200,000	349,291	(149,291)
Telephone	200,000	289,340	(89,340)
Utilities	210,000	228,319	(18,319)
Postage	18,500	16,608	1,892
Travel and training	-	488	(488)
Printing and publishing	13,000	9,113	3,887
Auditing services	68,000	93,078	(25,078)
Payroll service	26,000	36,447	(10,447)
Engineering services	90,000	1,012	88,988
Retainer fees	26,000	24,000	2,000
Medical services	30,000	28,262	1,738
Other professional services	51,000	18,531	32,469
Redflex traffic systems fees	190,000	125,104	64,896
Lawsuits and attorney fees	300,000	468,724	(168,724)
Public relations	27,500	30,857	(3,357)
Public relations - community day	115,000	117,168	(2,168)
Illinois department of revenue	211,200	211,200	-
Reimbursements	30,000	30,000	-
Total contractual services	<u>2,785,000</u>	<u>3,272,380</u>	<u>(487,380)</u>
Commodities			
Office supplies	-	122	(122)
Miscellaneous expense	10,000	16,055	(6,055)
Total commodities	<u>10,000</u>	<u>16,177</u>	<u>(6,177)</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Administration services (Continued)			
Capital outlay			
Equipment	\$ -	\$ 500	\$ (500)
Economic development incentive	810,000	776,489	33,511
Total administration services	3,605,000	4,065,546	(460,546)
Highway and streets			
Street department			
Salaries and wages			
Full-time salaries and wages	817,060	702,573	114,487
Part-time salaries and wages	32,400	46,194	(13,794)
Sick leave sell back	-	365	(365)
Overtime allowances	25,000	43,625	(18,625)
Total salaries and wages	874,460	792,757	81,703
Fringe benefits			
IMRF match	74,100	65,890	8,210
Employer's health insurance	149,950	114,830	35,120
Employer's dental and vision insurance	16,940	11,121	5,819
Social security match	54,220	47,511	6,709
Medicare match	12,680	11,111	1,569
Life insurance premiums	1,730	2,916	(1,186)
Total fringe benefits	309,620	253,379	56,241
Contractual services			
Maintenance - building	22,000	21,738	262
Maintenance - vehicles	61,000	78,650	(17,650)
Maintenance - equipment	28,500	16,427	12,073
Maintenance - streets	60,000	30,003	29,997
Maintenance - grounds	6,000	40,528	(34,528)

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Highway and streets (continued)			
Street department (continued)			
Contractual services (continued)			
Other maintenance	\$ 1,000	\$ -	\$ 1,000
Telephone	4,000	4,041	(41)
Street lighting	25,000	256	24,744
Rentals	5,000	1,699	3,301
Travel and training	4,500	7,935	(3,435)
Postage	250	30	220
Printing and publishing	1,000	196	804
Memberships and dues	1,500	1,905	(405)
Medical services	400	-	400
Other professional services	-	427	(427)
Contractual Services	145,000	5,201	139,799
Total contractual services	<u>365,150</u>	<u>209,036</u>	<u>156,114</u>
Commodities			
Office supplies	2,000	2,083	(83)
Gasoline and oil	45,000	49,792	(4,792)
Maintenance and supplies	15,000	11,977	3,023
Operating supplies	13,000	12,929	71
Uniforms	20,000	19,108	892
Miscellaneous expenses	1,000	1,183	(183)
Total commodities	<u>96,000</u>	<u>97,072</u>	<u>(1,072)</u>
Capital outlay			
Vehicles	20,000	-	20,000
Equipment	77,000	25,501	51,499
Total capital outlay	<u>97,000</u>	<u>25,501</u>	<u>71,499</u>
Total highway and streets	<u>1,742,230</u>	<u>1,377,745</u>	<u>364,485</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Public safety			
Police department			
Salaries and wages			
Full-time salaries and wages	\$ 5,472,770	\$ 5,014,648	\$ 458,122
Part-time salaries and wages	160,000	147,403	12,597
Voluntary separation plan	-	32,119	(32,119)
Holiday taken	-	198,061	(198,061)
Police special detail	-	36,953	(36,953)
Overtime allowances	75,000	98,891	(23,891)
Police overtime	600,000	864,527	(264,527)
Comp time accrued	-	59,227	(59,227)
Workers' compensation	65,000	113,792	(48,792)
Total salaries and wages	<u>6,372,770</u>	<u>6,565,621</u>	<u>(192,851)</u>
Fringe benefits			
IMRF match	82,000	110,537	(28,537)
Employer pension contribution	1,258,660	1,245,337	13,323
Employer's health insurance	827,890	912,684	(84,794)
Employer's dental and vision insurance	68,140	54,859	13,281
Social security match	52,630	68,206	(15,576)
Medicare match	91,470	87,597	3,873
Life insurance premiums	13,500	17,187	(3,687)
Total fringe benefits	<u>2,394,290</u>	<u>2,496,407</u>	<u>(102,117)</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Public safety (continued)			
Police department (continued)			
Contractual services			
Uniform allowance	\$ 9,450	\$ 9,866	\$ (416)
Maintenance - building	5,000	1,739	3,261
Maintenance - vehicle	120,000	75,500	44,500
Maintenance - equipment	61,000	32,111	28,889
Other maintenance	1,000	447	553
Telephone	15,000	22,180	(7,180)
Rentals	500	458	42
Travel and training	36,125	57,119	(20,994)
Postage	1,000	726	274
Police investigation unit	-	160	(160)
Printing and publishing	13,500	13,428	72
Other professional services	51,000	42,759	8,241
Dues and memberships	8,600	9,120	(520)
Animal control	30,000	20,333	9,667
Other communication service	15,000	15,084	(84)
Total contractual services	<u>367,175</u>	<u>301,030</u>	<u>66,145</u>
Commodities			
Office supplies	20,000	18,689	1,311
Gasoline and oil	110,000	73,987	36,013
Operating supplies	44,570	42,321	2,249
Uniforms	40,000	46,268	(6,268)
Prisoner meals	1,500	1,472	28
Publications	1,000	-	1,000
Investigative expenses	6,000	12,295	(6,295)
Crime prevention	26,000	17,378	8,622
Miscellaneous	10,000	3,078	6,922
Total commodities	<u>259,070</u>	<u>215,488</u>	<u>43,582</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Public safety (continued)			
Police department (continued)			
Debt service			
Loan principal and interest	\$ 45,000	\$ -	\$ 45,000
Capital lease	111,950	111,946	4
Total debt service	<u>156,950</u>	<u>111,946</u>	<u>45,004</u>
Capital outlay			
Vehicles	-	168,234	(168,234)
Equipment	66,000	85,899	(19,899)
Total capital outlay	<u>66,000</u>	<u>254,133</u>	<u>(188,133)</u>
Total police department	<u>9,616,255</u>	<u>9,944,625</u>	<u>(328,370)</u>
Fire department			
Salaries and wages			
Full-time salaries and wages	2,652,180	2,481,956	170,224
Part-time salaries and wages	22,605	8,329	14,276
Fire overtime	50,000	47,257	2,743
Holiday taken	-	91,265	(91,265)
Fire lieutenant pay	-	4,806	(4,806)
Overtime allowances	250	648	(398)
Sick leave buy back	-	20,775	(20,775)
Worker's compensation	20,000	-	20,000
Good attendance	-	14,301	(14,301)
Total salaries and wages	<u>2,745,035</u>	<u>2,669,337</u>	<u>75,698</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Public safety (continued)			
Fire department (continued)			
Fringe benefits			
IMRF match	\$ 13,360	\$ 11,936	\$ 1,424
Employer pension contribution	796,495	788,097	8,398
Employer's health insurance	437,880	413,450	24,430
Employer's dental and vision insurance	29,100	32,148	(3,048)
Social security match	11,025	8,149	2,876
Medicare match	39,520	37,095	2,425
Life insurance premiums	8,220	8,770	(550)
Total fringe benefits	<u>1,335,600</u>	<u>1,299,645</u>	<u>35,955</u>
Contractual services			
Maintenance - vehicles	34,500	44,961	(10,461)
Maintenance - equipment	19,100	19,128	(28)
Telephone	4,700	4,901	(201)
Rentals	3,500	1,424	2,076
Travel and training	35,000	31,269	3,731
Postage	300	234	66
Printing and publishing	5,000	2,999	2,001
Medical services	12,500	14,877	(2,377)
Other professional service	10,000	13,303	(3,303)
Dues and memberships	9,225	8,318	907
Total contractual services	<u>133,825</u>	<u>141,414</u>	<u>(7,589)</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Public safety (continued)			
Fire department (continued)			
Commodities			
Office supplies	\$ 3,500	\$ 3,269	\$ 231
Gasoline and oil	23,000	17,358	5,642
Maintenance supplies	4,000	3,930	70
Operating supplies	12,500	10,380	2,120
Ambulance operating supplies	10,000	8,202	1,798
Uniforms	27,000	25,398	1,602
Hazardous material enforcement	10,500	9,359	1,141
Reimbursements	1,000	985	15
Miscellaneous	2,500	3,179	(679)
Total commodities	<u>94,000</u>	<u>82,060</u>	<u>11,940</u>
Debt service			
Loan principal and interest	16,800	-	16,800
Capital lease	10,180	8,489	1,691
Total debt service	<u>26,980</u>	<u>8,489</u>	<u>18,491</u>
Capital outlay			
Vehicles	60,000	-	60,000
Equipment	-	6,164	(6,164)
Total capital outlay	<u>60,000</u>	<u>6,164</u>	<u>53,836</u>
Total fire department	<u>4,395,440</u>	<u>4,207,109</u>	<u>188,331</u>
Total public safety	<u>14,011,695</u>	<u>14,151,734</u>	<u>(140,039)</u>

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Economic development department			
Salaries and wages			
Full-time salaries and wages	\$ 506,420	\$ 470,554	\$ 35,866
Comp time	-	7,954	(7,954)
Overtime allowances	7,000	11,184	(4,184)
Total salaries and wages	<u>513,420</u>	<u>489,692</u>	<u>23,728</u>
Fringe benefits			
IMRF match	45,180	42,152	3,028
Employer's health insurance	65,140	51,816	13,324
Employer's dental and vision insurance	6,100	5,959	141
Social security match	31,840	29,167	2,673
Medicare match	7,450	6,821	629
Life insurance premiums	1,200	1,251	(51)
Total fringe benefits	<u>156,910</u>	<u>137,166</u>	<u>19,744</u>
Contractual services			
Telephone	4,000	4,337	(337)
Travel and training	5,000	4,499	501
Postage	500	722	(222)
Maintenance - vehicle	2,000	1,327	673
Maintenance - building	60,000	113,490	(53,490)
Maintenance - Equipment	1,500	1,466	34
Printing and publishing	4,500	12,995	(8,495)
Other professional services	300,000	815,522	(515,522)
Operating supplies	5,500	1,247	4,253
Uniforms	1,000	298	702
Miscellaneous expenses	250	-	250
Building Improvements	443,400	174,566	268,834

(Continued)

City of North Chicago, Illinois
 General Fund - Budgetary Basis
 Schedule of Expenditures - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Economic development department (continued)			
Contractual services (continued)			
Dues and memberships	\$ 7,500	\$ 2,200	\$ 5,300
Demolition	50,000	38,725	11,275
Pest Control	30,000	35,943	(5,943)
Lease interest expense	38,400	-	38,400
Equipment	15,000	27,500	(12,500)
Total contractual services	<u>968,550</u>	<u>1,234,837</u>	<u>(266,287)</u>
Commodities			
Office supplies	5,000	8,887	(3,887)
Gasoline and oil	3,500	1,642	1,858
Publications	500	312	188
Maintenance supplies	12,500	51	12,449
Total commodities	<u>21,500</u>	<u>10,892</u>	<u>10,608</u>
Economic development incentive	<u>-</u>	<u>7,984</u>	<u>(7,984)</u>
Total economic development department	<u>1,660,380</u>	<u>1,880,571</u>	<u>(220,191)</u>
Total expenditures	<u>\$ 23,365,741</u>	<u>\$ 23,715,051</u>	<u>\$ (349,310)</u>

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS

City of North Chicago, Illinois

Nonmajor Governmental Funds

Combining Balance Sheet

April 30, 2017

	<u>Special Revenue Funds</u>				
	<u>Library</u>	<u>Motor Fuel Tax</u>	<u>Community Development Block Grant</u>	<u>Federal Forfeited Property (DEA)</u>	<u>E911 Emergency</u>
ASSETS					
Cash and cash equivalents	\$ 1,353,071	\$ 1,736,001	\$ 227,201	\$ 164,174	\$ 317,830
Property tax receivable	764,393	-	-	-	-
Intergovernmental receivable	-	71,320	-	-	-
Other receivables	-	-	270,616	-	41,756
Due from other funds	85,966	805	-	-	-
Property held for resale	-	-	20,072	-	-
Total assets	\$ 2,203,430	\$ 1,808,126	\$ 517,889	\$ 164,174	\$ 359,586
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 47,289	\$ 48,304	\$ -	\$ -	\$ 1,588
Accrued payroll	10,341	-	-	-	-
Other liabilities	-	-	-	-	-
Unearned fees	-	-	-	-	-
Due to other funds	38,351	-	-	-	-
Total liabilities	95,981	48,304	-	-	1,588
Deferred inflows					
Property taxes levied for a future period	381,129	-	-	-	-
Total deferred inflows	381,129	-	-	-	-
Fund balances (deficits)					
Nonspendable for property held for resale	-	-	20,072	-	-
Restricted for special revenue funds	1,726,320	1,759,822	497,817	164,174	357,998
Restricted for debt service	-	-	-	-	-
Restricted for capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances (deficits)	1,726,320	1,759,822	517,889	164,174	357,998
Total liabilities, deferred inflows, and fund balances	\$ 2,203,430	\$ 1,808,126	\$ 517,889	\$ 164,174	\$ 359,586

Delta Institute Emerald Ash Borer Grant	Seized Drug Money (State)	DCEO Infrastructure	Grant Place	Grant Place Operating	Total Nonmajor Special Revenue Funds
\$ 228	\$ 50,143	\$ 25,035	\$ 514,513	\$ 13,266	\$ 4,401,462
-	-	-	-	-	764,393
-	-	-	-	-	71,320
-	-	-	6,467	-	318,839
-	-	-	25,888	-	112,659
-	-	-	1,200,000	-	1,220,072
<u>\$ 228</u>	<u>\$ 50,143</u>	<u>\$ 25,035</u>	<u>\$ 1,746,868</u>	<u>\$ 13,266</u>	<u>\$ 6,888,745</u>
\$ -	\$ 17,159	\$ -	\$ -	\$ 3,081	\$ 117,421
-	-	-	-	-	10,341
-	-	-	-	1,845	1,845
-	-	25,000	-	-	25,000
-	6,835	-	-	25,888	71,074
-	23,994	25,000	-	30,814	225,681
-	-	-	-	-	381,129
-	-	-	-	-	381,129
-	-	-	1,200,000	-	1,220,072
228	26,149	35	546,868	-	5,079,411
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(17,548)	(17,548)
228	26,149	35	1,746,868	(17,548)	6,281,935
<u>\$ 228</u>	<u>\$ 50,143</u>	<u>\$ 25,035</u>	<u>\$ 1,746,868</u>	<u>\$ 13,266</u>	<u>\$ 6,888,745</u>

(Continued)

City of North Chicago, Illinois

Nonmajor Governmental Funds

Combining Balance Sheet (Continued)

Year Ended April 30, 2017

	Debt Service Funds		
	Downtown Tax Increment Financing Redevelopment Project Area Debt Series 2014A	Downtown Tax Increment Financing Redevelopment Project Area Debt Service 2007A	Downtown Tax Increment Financing Redevelopment Project Area Debt Service 2007B
ASSETS			
Cash and cash equivalents	\$ 1,453,960	\$ 12,973	\$ 13,904
Property tax receivable	961,520	272,094	207,111
Intergovernmental receivable	-	-	-
Other receivables	-	-	-
Due from other funds	38,942	-	-
Property held for resale	-	-	-
Total assets	\$ 2,454,422	\$ 285,067	\$ 221,015
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Accrued payroll	-	-	-
Other liabilities	-	-	-
Unearned fees	-	-	-
Due to other funds	500,000	-	-
Total liabilities	500,000	-	-
Deferred inflows			
Property taxes levied for a future period	68,857	135,667	103,266
Total deferred inflows	68,857	135,667	103,266
Fund balances (deficits)			
Nonspendable for property held for resale	-	-	-
Restricted for special revenue funds	-	-	-
Restricted for debt service	1,885,565	149,400	117,749
Restricted for capital projects	-	-	-
Unassigned	-	-	-
Total fund balances (deficits)	1,885,565	149,400	117,749
Total liabilities, deferred inflows, and fund balances	\$ 2,454,422	\$ 285,067	\$ 221,015

		Capital Project Funds				Total	
Grant Place Retail Center Debt Service 2007C	Total Nonmajor Debt Service Funds	Capital Improvement	Downtown Tax Increment Financing Redevelopment Project Area	Skokie Highway TIF III Fund	Total Nonmajor Capital Project Funds	Nonmajor Governmental Funds	
\$ 167,716	\$ 1,648,553	\$ 45,210	\$ 587,272	\$ -	\$ 632,482	\$ 6,682,497	
841,234	2,281,959	-	-	-	-	3,046,352	
-	-	-	-	-	-	71,320	
-	-	-	-	-	-	318,839	
-	38,942	-	705,315	285	705,600	857,201	
-	-	-	131,368	-	131,368	1,351,440	
<u>\$ 1,008,950</u>	<u>\$ 3,969,454</u>	<u>\$ 45,210</u>	<u>\$ 1,423,955</u>	<u>\$ 285</u>	<u>\$ 1,469,450</u>	<u>\$ 12,327,649</u>	
\$ -	\$ -	\$ -	\$ 3,350	\$ -	\$ 3,350	\$ 120,771	
-	-	-	-	-	-	10,341	
-	-	-	-	285	285	2,130	
-	-	-	-	-	-	25,000	
-	500,000	-	8,754	3,403	12,157	583,231	
-	500,000	-	12,104	3,688	15,792	741,473	
419,444	727,234	-	-	-	-	1,108,363	
419,444	727,234	-	-	-	-	1,108,363	
-	-	-	131,368	-	131,368	1,351,440	
-	-	-	-	-	-	5,079,411	
589,506	2,742,220	-	-	-	-	2,742,220	
-	-	45,210	1,280,483	-	1,325,693	1,325,693	
-	-	-	-	(3,403)	(3,403)	(20,951)	
589,506	2,742,220	45,210	1,411,851	(3,403)	1,453,658	10,477,813	
<u>\$ 1,008,950</u>	<u>\$ 3,969,454</u>	<u>\$ 45,210</u>	<u>\$ 1,423,955</u>	<u>\$ 285</u>	<u>\$ 1,469,450</u>	<u>\$ 12,327,649</u>	

(Concluded)

City of North Chicago, Illinois

Nonmajor Governmental Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances (Deficit)

For the Year Ended April 30, 2017

	Special Revenue Funds				
	Library	Motor Fuel Tax	Community Development Block Grant	Federal Forfeited Property (DEA)	E911 Emergency
Revenues					
Property taxes	\$ 769,165	\$ -	\$ -	\$ -	\$ -
Taxes - other	-	-	-	-	121,861
Intergovernmental	-	825,637	-	-	-
Grants	25,108	-	87,475	-	-
Fines and fees	17,353	-	-	-	-
Interest	54	743	53	2	153
Miscellaneous	8,925	29,524	-	122,268	-
Total revenues	820,605	855,904	87,528	122,270	122,014
Expenditures					
Current					
Administration services	-	-	11,162	-	-
Highway and streets	-	435,508	-	-	-
Public safety	-	-	-	-	15,019
Culture and recreation	596,073	-	-	-	-
Economic development	-	-	86,439	-	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and other	-	-	-	-	-
Impairment loss (Note A-17)	-	-	-	-	-
Capital outlay	145,480	1,166,911	-	-	286,017
Total expenditures	741,553	1,602,419	97,601	-	301,036
Excess (deficiency) of revenues over expenditures	79,052	(746,515)	(10,073)	122,270	(179,022)
Other financing sources (uses)					
Transfer to escrow agent	-	-	-	-	-
Transfers in (out)	-	-	-	-	-
Total other financing sources	-	-	-	-	-
Net change in fund balance	79,052	(746,515)	(10,073)	122,270	(179,022)
Fund balance, beginning of year	1,647,268	2,506,337	527,962	41,904	537,020
Fund balance (deficit), end of year	\$ 1,726,320	\$ 1,759,822	\$ 517,889	\$ 164,174	\$ 357,998

Delta Institute Emerald Ash Borer Grant	Seized Drug Money (State)	DCEO Infrastructure	Grant Place	Grant Place Operating	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 769,165
-	-	-	-	-	121,861
-	2,053	-	-	-	827,690
-	-	-	-	-	112,583
-	-	-	-	-	17,353
-	67	1	2,359	-	3,432
-	-	-	1,800	145,826	308,343
<u>-</u>	<u>2,120</u>	<u>1</u>	<u>4,159</u>	<u>145,826</u>	<u>2,160,427</u>
-	-	-	-	-	11,162
-	-	-	-	-	435,508
-	17,159	-	-	-	32,178
-	-	-	-	-	596,073
6,832	-	-	-	166,123	259,394
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,598,408
<u>6,832</u>	<u>17,159</u>	<u>-</u>	<u>-</u>	<u>166,123</u>	<u>2,932,723</u>
(6,832)	(15,039)	1	4,159	(20,297)	(772,296)
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(6,832)	(15,039)	1	4,159	(20,297)	(772,296)
7,060	41,188	34	1,742,709	2,749	7,054,231
<u>\$ 228</u>	<u>\$ 26,149</u>	<u>\$ 35</u>	<u>\$ 1,746,868</u>	<u>\$ (17,548)</u>	<u>\$ 6,281,935</u>

(Continued)

City of North Chicago, Illinois

Nonmajor Governmental Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances (Deficit) (Continued)

For the Year Ended April 30, 2017

	Debt Service Funds		
	Downtown Tax Increment Financing Redevelopment Project Area Debt Series 2014A	Downtown Tax Increment Financing Redevelopment Project Area Debt Service 2007A	Downtown Tax Increment Financing Redevelopment Project Area Debt Service 2007B
Revenues			
Property taxes	\$ 1,615,033	\$ 268,296	\$ 207,091
Taxes - other	-	-	-
Intergovernmental	-	-	-
Grants	-	-	-
Fines and fees	-	-	-
Interest	1,165	391	556
Miscellaneous	-	-	-
Total revenues	1,616,198	268,687	207,647
Expenditures			
Current			
Administration services	-	-	-
Highway and streets	-	-	-
Public safety	-	-	-
Culture and recreation	-	-	-
Economic development	-	-	-
Debt service			
Principal retirement	695,000	195,000	-
Interest and other	208,151	63,775	205,535
Impairment loss	-	-	-
Capital outlay	-	-	-
Total expenditures	903,151	258,775	205,535
Excess (deficiency) of revenues over expenditures	713,047	9,912	2,112
Other financing sources (uses)			
Transfers out	-	-	-
Transfers in	-	-	-
Total other financing sources	-	-	-
Net change in fund balance	713,047	9,912	2,112
Fund balance, beginning of year	1,172,518	139,488	115,637
Fund balance (deficit), end of year	\$ 1,885,565	\$ 149,400	\$ 117,749

		Capital Project Funds				Total	
Grant Place Retail Center Debt Service 2007C	Total Nonmajor Debt Service Funds	Capital Improvement	Downtown Tax Increment Financing Redevelopment Project Area	Skokie Highway TIF III Fund	Total Nonmajor Capital Project Funds	Nonmajor Governmental Funds	
\$ 821,029	\$ 2,911,449	\$ -	\$ -	\$ -	\$ -	\$ 3,680,614	
-	-	-	-	-	-	121,861	
-	-	-	-	-	-	827,690	
-	-	-	-	-	-	112,583	
-	-	-	-	-	-	17,353	
2,144	4,256	-	3,150	-	3,150	10,838	
-	-	-	11,285	-	11,285	319,628	
<u>823,173</u>	<u>2,915,705</u>	<u>-</u>	<u>14,435</u>	<u>-</u>	<u>14,435</u>	<u>5,090,567</u>	
-	-	-	-	-	-	11,162	
-	-	-	-	-	-	435,508	
-	-	-	-	-	-	32,178	
-	-	-	-	-	-	596,073	
-	-	-	-	3,403	3,403	262,797	
345,000	1,235,000	-	-	-	-	1,235,000	
438,400	915,861	-	-	-	-	915,861	
-	-	-	103,137	-	103,137	103,137	
-	-	-	-	-	-	1,598,408	
<u>783,400</u>	<u>2,150,861</u>	<u>-</u>	<u>103,137</u>	<u>3,403</u>	<u>103,137</u>	<u>5,190,124</u>	
39,773	764,844	-	(88,702)	(3,403)	(92,105)	(99,557)	
-	-	-	(212,400)	-	(212,400)	(212,400)	
<u>182,400</u>	<u>182,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,400</u>	
<u>182,400</u>	<u>182,400</u>	<u>-</u>	<u>(212,400)</u>	<u>-</u>	<u>(212,400)</u>	<u>(30,000)</u>	
222,173	947,244	-	(301,102)	(3,403)	(304,505)	(129,557)	
<u>367,333</u>	<u>1,794,976</u>	<u>45,210</u>	<u>1,712,953</u>	<u>-</u>	<u>1,758,163</u>	<u>10,607,370</u>	
<u>\$ 589,506</u>	<u>\$ 2,742,220</u>	<u>\$ 45,210</u>	<u>\$ 1,411,851</u>	<u>\$ (3,403)</u>	<u>\$ 1,453,658</u>	<u>\$ 10,477,813</u>	

(Concluded)

ENTERPRISE FUNDS

City of North Chicago, Illinois

Water, Sewer and Refuse Fund

Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Operating revenues			
Charges for sales and services	\$ 8,377,270	\$ 7,924,602	\$ (452,668)
Miscellaneous	10,000	56,417	46,417
Total operating revenues	<u>8,387,270</u>	<u>7,981,019</u>	<u>(406,251)</u>
Operating expenses			
Operations	9,257,840	6,727,933	2,529,907
Depreciation	-	740,347	(740,347)
Total operating expenses	<u>9,257,840</u>	<u>7,468,280</u>	<u>1,789,560</u>
Operating income (loss)	<u>(870,570)</u>	<u>512,739</u>	<u>1,383,309</u>
Nonoperating revenues (expenses)			
Property taxes	181,000	232,498	51,498
Interest income	1,500	27,305	25,805
Principal retirement	(82,075)	-	82,075
Interest expense and fiscal charges	<u>(195,000)</u>	<u>(71,112)</u>	<u>123,888</u>
Total nonoperating revenues (expenses)	<u>(94,575)</u>	<u>188,691</u>	<u>283,266</u>
Income (loss) before transfers	<u>(965,145)</u>	<u>701,430</u>	<u>1,666,575</u>
Transfers out	<u>(2,175,000)</u>	<u>(2,175,000)</u>	<u>-</u>
Change in net position	\$ <u><u>(3,140,145)</u></u>	<u>(1,473,570)</u>	\$ <u><u>1,666,575</u></u>
Net position, beginning of year, as restated (Note O)		<u>22,513,654</u>	
Net position, end of year		\$ <u><u>21,040,084</u></u>	

City of North Chicago, Illinois
Water, Sewer and Refuse Fund
Schedule of Operating Revenues - Budget and Actual
For the Year Ended April 30, 2017

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance from <u>Final Budget</u>
Operating revenues			
Charges for sales and services			
Industrial water	\$ 1,969,000	\$ 1,721,596	\$ (247,404)
Abbott park water	791,000	813,820	22,820
Abbott raw water	755,000	689,413	(65,587)
Residential water	1,398,570	1,298,867	(99,703)
Commercial water	386,165	351,747	(34,418)
Water resumption	20,000	17,425	(2,575)
Meter sales	10,000	75,571	65,571
Tie-in fees	17,100	151,975	134,875
Water/sewer assessment	100	-	(100)
Water base fees	629,800	635,926	6,126
Water penalty and late fees	50,000	51,582	1,582
Raw water equipment	23,085	23,707	622
Sewer usage - residential	496,750	445,049	(51,701)
Sewer usage - industrial	830,100	615,768	(214,332)
Sewer usage - commercial	142,200	105,707	(36,493)
Sewer base fees	91,000	89,839	(1,161)
Sewer penalty and late fees	15,000	16,042	1,042
Refuse hauling	<u>752,400</u>	<u>820,568</u>	<u>68,168</u>
Total charges for sales and services	<u>8,377,270</u>	<u>7,924,602</u>	<u>(452,668)</u>
Miscellaneous	<u>10,000</u>	<u>56,417</u>	<u>46,417</u>
Total operating revenues	<u>\$ 8,387,270</u>	<u>\$ 7,981,019</u>	<u>\$ (406,251)</u>

City of North Chicago, Illinois

Water, Sewer and Refuse Fund

Schedule of Operating Expenses - Budget and Actual (Continued)

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Operating expenses			
Salaries and wages			
Full-time salaries and wages	\$ 1,251,210	\$ 1,052,064	\$ 199,146
Overtime allowances	145,000	178,388	(33,388)
Compensated absences	-	38,859	(38,859)
Workers' compensation	5,000	3,899	1,101
Total salaries and wages	<u>1,401,210</u>	<u>1,273,210</u>	<u>128,000</u>
Fringe benefits			
IMRF match	122,870	109,413	13,457
IMRF net pension liability adjustment	-	41,927	(41,927)
Employer's health insurance	209,360	156,700	52,660
Employer's dental and vision insurance	17,380	14,081	3,299
Social security match	86,570	73,380	13,190
Medicare match	20,250	17,161	3,089
Life insurance premiums	1,950	7,161	(5,211)
Total fringe benefits	<u>458,380</u>	<u>419,823</u>	<u>38,557</u>
Contractual services			
Maintenance - buildings	240,000	38,037	201,963
Maintenance - vehicles	18,000	35,959	(17,959)
Maintenance - equipment	173,500	172,095	1,405
Maintenance - utility system	235,000	66,031	168,969
Other maintenance	5,000	-	5,000
Telephone	6,500	9,059	(2,559)
Utilities	685,000	678,585	6,415
Rentals	6,000	163	5,837
Medical service	900	-	900
Travel and training	5,600	2,309	3,291
Postage	12,000	13,759	(1,759)
Landfill and roll-off	5,000	-	5,000

(Continued)

City of North Chicago, Illinois

Water, Sewer and Refuse Fund

Schedule of Operating Expenses - Budget and Actual (Continued)

For the Year Ended April 30, 2017

	Original and Final Budget	Actual	Variance from Final Budget
Operating expenses (continued)			
Contractual services (continued)			
Printing and publishing	\$ 5,000	\$ 3,969	\$ 1,031
Fiber option project	200,000	-	200,000
Engineering services	364,000	455,591	(91,591)
Refuse collection	762,000	755,885	6,115
Other professional services	383,500	135,763	247,737
Dues and memberships	1,900	538	1,362
Sludge treatment	50,000	22,808	27,192
Intake inspection	294,000	1,924	292,076
Total contractual services	<u>3,452,900</u>	<u>2,392,475</u>	<u>1,060,425</u>
Commodities			
Office supplies	12,500	851	11,649
Gasoline and oil	35,000	-	35,000
Maintenance supplies	220,000	73,481	146,519
Operating supplies	168,500	105,255	63,245
Uniforms	14,850	16,930	(2,080)
Miscellaneous expenses	2,000	6,323	(4,323)
Total commodities	<u>452,850</u>	<u>202,840</u>	<u>250,010</u>
Capital outlay			
Other improvements	3,043,500	2,358,748	684,752
Vehicles	409,000	35,396	373,604
Equipment	-	1,103	(1,103)
Meters	40,000	44,338	(4,338)
Total capital outlay	<u>3,492,500</u>	<u>2,439,585</u>	<u>1,052,915</u>
Depreciation	<u>-</u>	<u>740,347</u>	<u>(740,347)</u>
Total operating expenses	<u>\$ 9,257,840</u>	<u>\$ 7,468,280</u>	<u>\$ 1,789,560</u>

(Concluded)

INTERNAL SERVICE FUNDS

City of North Chicago, Illinois

Internal Service Funds

Combining Schedule of Net Position

April 30, 2017

	<u>Dental and Vision</u>	<u>Retiree's Premium</u>	<u>Total Internal Service Funds</u>
ASSETS			
Cash and cash equivalents	\$ 149,887	\$ 13,037	\$ 162,924
Due from other funds	-	1,307	1,307
Other receivables	<u>43,775</u>	<u>-</u>	<u>43,775</u>
Total assets	<u>193,662</u>	<u>14,344</u>	<u>208,006</u>
LIABILITIES			
Accounts payable	11,988	4,344	16,332
Due to other funds	-	10,000	10,000
Claims payable	<u>18,540</u>	<u>-</u>	<u>18,540</u>
Total liabilities	<u>30,528</u>	<u>14,344</u>	<u>44,872</u>
NET POSITION			
Unrestricted	<u>\$ 163,134</u>	<u>\$ -</u>	<u>\$ 163,134</u>

City of North Chicago, Illinois

Internal Service Funds

Combining Schedule of Revenues, Expenses, and Changes in Net Position

For the Year Ended April 30, 2017

	<u>Dental and Vision</u>	<u>Retiree's Premium</u>	<u>Total Internal Service Funds</u>
Operating revenues			
Charges for sales and services	\$ <u>133,863</u>	\$ <u>167,846</u>	\$ <u>301,709</u>
Total operating revenues	<u>133,863</u>	<u>167,846</u>	<u>301,709</u>
Operating expenses			
Premiums / claim payments	<u>157,805</u>	<u>167,851</u>	<u>325,656</u>
Operating loss	<u>(23,942)</u>	<u>(5)</u>	<u>(23,947)</u>
Nonoperating revenues			
Interest income	<u>49</u>	<u>5</u>	<u>54</u>
Change in net position	(23,893)	-	(23,893)
Net position, beginning of year	<u>187,027</u>	<u>-</u>	<u>187,027</u>
Net position, end of year	<u><u>\$ 163,134</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 163,134</u></u>

City of North Chicago, Illinois

Internal Service Funds

Combining Schedule of Cash Flows

For the year ended April 30, 2017

	<u>Dental and Vision</u>	<u>Retiree's Premium</u>	<u>Total Internal Service Funds</u>
Cash flows from operating activities			
Cash received from customers	\$ 111,781	\$ 167,846	\$ 279,627
Cash payments for goods and services	<u>(165,614)</u>	<u>(192,819)</u>	<u>(358,433)</u>
Net cash used in operating activities	<u>(53,833)</u>	<u>(24,973)</u>	<u>(78,806)</u>
Cash flows from noncapital financing activities			
Interfund borrowing	<u>-</u>	<u>14,091</u>	<u>14,091</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>14,091</u>	<u>14,091</u>
Cash flows from investing activities			
Interest received	<u>49</u>	<u>5</u>	<u>54</u>
Net cash provided by investing activities	<u>49</u>	<u>5</u>	<u>54</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(53,784)	(10,877)	(64,661)
Cash and cash equivalents, beginning of year	<u>203,671</u>	<u>23,914</u>	<u>227,585</u>
Cash and cash equivalents, end of year	<u>\$ 149,887</u>	<u>\$ 13,037</u>	<u>\$ 162,924</u>
Reconciliation of operating loss to net cash in operating activities			
Operating loss	\$ (23,942)	\$ (5)	\$ (23,947)
Adjustments to reconcile operating loss to net cash used in operating activities			
Increase in other receivables	(22,082)	-	(22,082)
Increase in estimated claims liability	3,289	-	3,289
Decrease in accounts payable	<u>(11,098)</u>	<u>(24,968)</u>	<u>(36,066)</u>
Net cash used in operating activities	<u>\$ (53,833)</u>	<u>\$ (24,973)</u>	<u>\$ (78,806)</u>

OTHER SUPPLEMENTARY INFORMATION
(Unaudited)

City of North Chicago, Illinois
 General Obligation Bonds Series 2007A
 Schedule of Annual Debt Service Requirements
April 30, 2017

General Obligation Bonds
 Series 2007A
 General Governmental Obligation

Date May 9, 2007
 Issuance \$2,475,000
 Due November 1, as set forth below
 Registration Fully registered
 Paying Agent Amalgamated Bank of Chicago
 Chicago, Illinois
 Interest Dates May 1 and November 1

Fiscal Year Ended April 30,	Interest Rate	Principal	Interest	Annual Debt Service
2018	4.00%	\$ 210,000	\$ 59,400	\$ 269,400
2019	4.00	220,000	51,000	271,000
2020	4.00	240,000	42,200	282,200
2021	4.00	255,000	32,600	287,600
2022	4.00	270,000	22,400	292,400
2023	4.00	290,000	11,600	301,600
		<u>\$ 1,485,000</u>	<u>\$ 219,200</u>	<u>\$ 1,704,200</u>

City of North Chicago, Illinois
 General Obligation Bonds Series 2007B
 Schedule of Annual Debt Service Requirements
April 30, 2017

General Obligation Bonds
 Series 2007B
 General Governmental Obligation

Date May 9, 2007
 Issuance \$4,740,000
 Due November 1, as set forth below
 Registration Fully registered
 Paying Agent Amalgamated Bank of Chicago
 Chicago, Illinois
 Interest Dates May 1 and November 1

Fiscal Year Ended April 30,	Interest Rate	Principal	Interest	Annual Debt Service
2018	4.30%	\$ -	\$ 205,060	\$ 205,060
2019	4.30	-	205,060	205,060
2020	4.30	-	205,060	205,060
2021	4.30	-	205,060	205,060
2022	4.30	-	205,060	205,060
2023	4.30	-	205,060	205,060
2024	4.30	-	205,060	205,060
2025	4.30	-	205,060	205,060
2026	4.30	-	205,060	205,060
2027	4.30	-	205,060	205,060
2028	4.30	-	205,060	205,060
2029	4.30	415,000	205,060	620,060
2030	4.30	435,000	187,215	622,215
2031	4.30	450,000	168,510	618,510
2032	4.30	470,000	149,160	619,160
2033	4.30	490,000	128,950	618,950

(Continued)

City of North Chicago, Illinois
 General Obligation Bonds Series 2007B (Continued)
 Schedule of Annual Debt Service Requirements
April 30, 2017

General Obligation Bonds
 Series 2007B (Continued)
 General Governmental Obligation

Fiscal Year Ended April 30,	Interest Rate	Principal	Interest	Annual Debt Service
2034	4.35%	\$ 510,000	\$ 107,880	\$ 617,880
2035	4.35	535,000	85,695	620,695
2036	4.35	555,000	62,423	617,423
2037	4.35	580,000	38,280	618,280
2038	4.35	300,000	6,525	306,525
		<u>\$ 4,740,000</u>	<u>\$ 3,395,358</u>	<u>\$ 8,135,358</u>

(Concluded)

City of North Chicago, Illinois
 General Obligation Bonds Series 2007C
 Schedule of Annual Debt Service Requirements
April 30, 2017

General Obligation Bonds
 Series 2007C
 General Governmental Obligation

Date August 15, 2007
 Issuance \$8,860,000
 Due November 1, as set forth below
 Registration Fully registered
 Paying Agent Amalgamated Bank of Chicago
 Chicago, Illinois
 Interest Dates May 1 and November 1

Fiscal Year Ended April 30,	Interest Rate	Principal	Interest	Annual Debt Service
2018	5.81%	\$ 405,000	\$ 416,137	\$ 821,137
2019	5.81	450,000	391,300	841,300
2020	5.81	495,000	363,847	858,847
2021	5.81	550,000	333,490	883,490
2022	5.81	600,000	300,083	900,083
2023	6.01	660,000	263,480	923,480
2024	6.01	720,000	222,671	942,671
2025	6.01	765,000	178,046	943,046
2026	6.01	810,000	130,718	940,718
2027	6.01	860,000	80,534	940,534
2028	6.01	910,000	27,346	937,346
		<u>\$ 7,225,000</u>	<u>\$ 2,707,652</u>	<u>\$ 9,932,652</u>

City of North Chicago, Illinois
 General Obligation Bonds Series 2014A Refunding
 Schedule of Annual Debt Service Requirements
April 30, 2017

General Obligation Bonds
 Series 2014A Refunding
 General Governmental Obligation

Date February 4, 2015
 Issuance \$6,010,000
 Due November 1, as set forth below
 Registration Fully registered
 Paying Agent Amalgamated Bank of Chicago
 Chicago, Illinois
 Interest Date: May 1 and November 1

Fiscal Year Ended April 30,	Interest Rate	Principal	Interest	Annual Debt Service
2018	3.00%	\$ 755,000	\$ 185,675	\$ 940,675
2019	4.00	805,000	162,275	967,275
2020	4.00	845,000	133,300	978,300
2021	4.00	905,000	98,300	1,003,300
2022	4.00	970,000	60,800	1,030,800
2023	4.00	1,035,000	20,700	1,055,700
		<u>\$ 5,315,000</u>	<u>\$ 661,050</u>	<u>\$ 5,976,050</u>

City of North Chicago, Illinois
 General Obligation Bonds Series 2014B Refunding
 Schedule of Annual Debt Service Requirements
April 30, 2017

General Obligation Bonds
 Series 2014B Refunding
 Enterprise Obligation

Date February 4, 2015
 Issuance \$2,275,000
 Due November 1, as set forth below
 Registration Fully registered
 Paying Agent Amalgamated Bank of Chicago
 Chicago, Illinois
 Interest Dates May 1 and November 1

Fiscal Year Ended April 30,	Interest Rate	Principal	Interest	Annual Debt Service
2018	3.00%	\$ 200,000	\$ 76,150	\$ 276,150
2019	4.00	205,000	70,075	275,075
2020	4.00	215,000	62,700	277,700
2021	4.00	220,000	54,000	274,000
2022	4.00	230,000	45,000	275,000
2023	4.00	240,000	35,600	275,600
2024	4.00	245,000	25,900	270,900
2025	4.00	260,000	15,800	275,800
2026	4.00	265,000	5,300	270,300
		<u>\$ 2,080,000</u>	<u>\$ 390,525</u>	<u>\$ 2,470,525</u>

City of North Chicago, Illinois

Legal Debt Margin

April 30, 2017

The City is a home rule municipality. Article VII, Section 6(k) of the 1970 Illinois Constitution governs computation of the legal debt margin.

"The General Assembly may limit by law the amount and require referendum approval of debt to be incurred by home rule municipalities, payable from ad valorem property tax receipts, only in excess of the following percentages of the assessed value of its taxable property...(2) if its population is more than 25,000 and less than 500,000 an aggregate of one percent...indebtedness which is outstanding on the effective date (July 1, 1971) of this constitution or which is thereafter approved by referendum...shall not be included in the foregoing amounts."

To date, the General Assembly has set no limits for home rule municipalities.